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Where does the EC go from here?

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FINANCIAL TIMES

Europe's Business Newspaper MONDAY DECEMBER 14 1992 D8523A

US marines seize Somali airstrip as more troops arrive

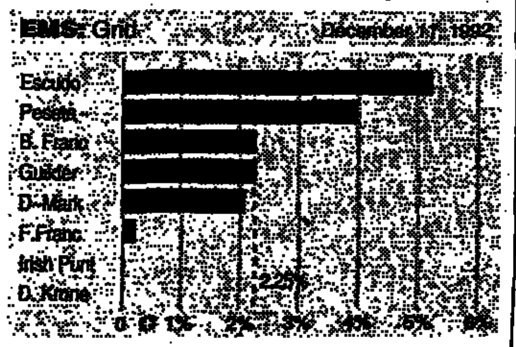
US marines captured a vital airstrip at Bali Dogle in the interior of Somalia, paving the way for the imminent arrival of 10,000 US troops. However, with at least 36,000 troops due in Somalia by Christmas, there is still confusion about the tactics and objectives of the operation, which has a United Nations mandate to provide security for relief efforts. Page 6; Picture, Page 18

KIO's problems mount: Financial difficulties at Grupo Torras, Spanish investment arm of the Kuwait Investment Office, have spread with the announcement that property affiliate Prima Inmobilaria has filed for protection. Page 19

Action sought on Serbian violations: Pressure for the use of force to implement the UN-imposed "no fly" zone over Bosnia, was stepped up at the weekend, with both the US and France calling for military measures. Page 4

Japan hints at compromise: Prime minister Kiichi Miyazawa signalled that Japan might be willing to reform its rice ban in order to smooth the path of world trade talks. Page 6

European monetary system: Tension within the exchange rate mechanism grew last week as the Bundesbank intervened to support the French franc. The Belgian and Dutch central banks helped to support the Danish krone while the Irish punt looked extremely vulnerable. The French franc has the strongest chance of withstanding any realignment, but even analysts who believe the French economy has the fundamental strength to avoid devaluation are concerned. More bearish economists are convinced that devaluation is imminent. Currencies, Page 29; Lex, Page 19



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the EMS's narrow 2.25 per cent fluctuation band. In practice, currencies in the narrow band cannot rise more than 2.25 per cent from the weakest currency in that part of the system. The Spanish peseta and Portuguese escudo operate with 6 per cent fluctuation bands.

Kidnap raises security issues: The new Israeli government faces its severest security challenge following the kidnap of a paramilitary police officer by Islamic fundamentalists. Page 18

Electric car deal: America's big three carmakers – General Motors, Ford and Chrysler – have signed an agreement to co-operate closely in the development of electronic vehicles. Page 19

Threat to drugs groups: UK-based drugs groups may lose up to £450m ($685m) from proposed reforms to the UK's state health service which would remove 600 medicines from the list of drugs provided by the government. Page 7

Barclays sets ambitious target: Andrew Buxton, who takes over as chairman and chief executive of Barclays in January, intends the UK clearing bank to make record profits within five years. Until last year, Barclays was Britain's most profitable bank. Leaner and fitter, Page 17

Bock caught by surprise: Tiny Rowland's threat to transfer Lonrho headquarters to Germany has surprised Dieter Bock, who is buying Mr Rowland's stake and who was expecting to move to London should he join the Lonrho board. Page 20

Quake claims 1,200 lives: Indonesian officials have applied for emergency supplies following Saturday's earthquake in which at least 1,200 people died on the island of Flores in eastern Indonesia. Page 6

UK trade figures 'blackout': The UK will not publish figures for its trade with the rest of the EC in the first six months of next year as a result of changes to the single European market. Page 7; Blackout on trade figures, Page 19

Anglo United, which mostly financed its £500m ($760m) takeover of Coalite in 1989 through debt, is close to an agreement with its banks over a debt-for-equity swap. Page 19

Warning on Kenya polls: Kenya's first multiparty elections since 1966, scheduled for December 29, are in jeopardy unless "irregularities" in parliamentary nominations are resolved, according to Commonwealth observers. Page 6

Closing prices: We regret that, because of technical difficulties, we were unable to publish Friday's London Stock Exchange closing prices in Saturday's paper. Thursday night's closing prices were run instead. We apologise to readers for this. Friday's closing prices appear as normal in today's London Share Service pages.

Footballers take a stand: Italian football teams in the top divisions took to the field carrying banners proclaiming "No To Racism" in response to growing racial intolerance.

K.C. Irving dies: Canadian billionaire, oil and newspaper baron K.C. Irving, has died, aged 93. In 1990, Forbes magazine estimated the Irving family fortune at $5bn, the world's 16th largest.

Austria	Sch30	Greece	Dr250	Lux	LFr60	Qatar	QR12.00
Bahrain	Din1.250	Hungary	Ft162	Malta	Lm0.50	S.Arabia	SR11
Belgium	BFr60	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10
Bulgaria	Lv29	India	Rs20	Neth	Fl 3.50	Spain	Pta200
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14
Czech	Kcs35	Israel	Shk5.50	Norway	NKr16.00	Switz	SFr3.00
Denmark	DKr14	Italy	L2500	Oman	OR1.50	Syria	SyP50.00
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs35	Thailand	Bht50
Finland	FM12	Korea	Won 2500	Philippines	Pso45	Tunisia	Din1.250
France	FFr8.50	Kuwait	Fils.600	Poland	Zl 22,000	Turkey	L6000
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190	UAE	Dh10.00

Governments agree on future financing ■ Accord reached on Danish issue

EC leaders say summit a success

By Lionel Barber and David Gardner in Edinburgh

GOVERNMENTS in the European Community yesterday hailed the success of the weekend summit at Edinburgh, saying it would provide a road map for the Community's political development to the end of the century.

Mr John Major, UK prime minister who chaired the EC heads of government meeting, declared that it would go down "as the summit that put the Community back together".

Leaders of the 12 agreed on the crucial issue of future EC financing and the Danish question, building a platform for a relaunch of the Community in 1993 through immediate enlargement negotiations with Austria, Sweden and Finland.

Despite continuing turbulence in the currency market, EC officials said they believed that the wide-ranging agreements in Edinburgh would restore faith in the EC's goal of a single currency by the end of the decade.

The Community faced an "all or nothing" summit in which the much criticised UK presidency had to pull off a series of interlocking deals on the EC budget, Denmark's demands for legally-binding exemptions from the Maastricht Treaty, and to show the citizens of Europe that the EC could recover from the crisis triggered by Danish voters' rejection of the Treaty last June.

The Edinburgh agreement means that Denmark hopes to resubmit the Maastricht treaty to its voters by May at the latest, and the Copenhagen minority government is confident of securing approval.

Denmark got everything it asked for at the Edinburgh summit, declared Mr Poul Schlüter, its prime minister. "It was a great day for Denmark," he said.

In Denmark, the Edinburgh agreement was welcomed by business leaders and greeted by newspaper headlines in Copenhagen as "Triumph for Denmark" and "Europe Gave Way".

The country's leftwing Socialist People's party joined two other key opposition parties in declaring support for the deal.

The party's executive committee took the decision, after a five-hour meeting, to go along with the Social Democrat and Radical Liberal parties in backing the Edinburgh agreement. This means it has the backing of seven of the eight parties in the Folketing, the Danish parliament.

Major will try to build on success..........Page 2
Spain 'first, first, first' but others do well..........Page 2
Treaty may leak..........Page 3
Road from Edinburgh to Emu still bumpy..........Page 6
Editorial Comment..........Page 16
An end to drift..........Page 16
Nation unto nation..........Back Page, second section

Mr Major pledged to complete ratification of the treaty in the House of Commons "hard on the heels" of the Danish vote.

EC leaders agreed to make the Community more accountable through more decentralised and more open decision-making. They also presented a modest growth package which calls for co-ordination of national macroeconomic policy and some modest increased spending at EC level on capital investment roads, telecommunications and infrastructure.

The two day meeting was marked by tough bargaining. It was "very hard going and tense", according to prime minister Felipe Gonzalez of Spain who at one stage during bilateral talks with Mr Major on Saturday threatened to walk out of the summit.

Under the budget deal, EC leaders have agreed to raise annual Community spending from Ecu66.8bn in 1992 to Ecu84bn ($105bn) in 1999, in today's money. The main winners are the poorer EC member states, led by Spain, which will receive roughly double the amount of development aid they get from the EC.

The finance agreement was hailed by Mr Jacques Delors, European Commission president, who said he got "85 per cent" of what he originally sought. However, the policies developed by Brussels in recent years – such as environment, research, transport and infrastructure – will suffer as a result of the large concessions offered to Spain, Portugal, Greece and Ireland.

EC leaders expressed frustration at the summit over the delays in ratifying the Maastricht treaty.

On Friday afternoon, both Denmark and Britain were warned by a majority of EC leaders, including Chancellor Helmut Kohl of Germany and President François Mitterrand of France, that they wanted ratification wrapped up by the summer of next year.

There was an explicit threat by all these leaders to proceed with the "substance of Maastricht", unless Denmark and the UK ratified.

Pleased at the outcome: British premier John Major and European Commission president Jacques Delors

Major confident that treaty is salvaged

KEY DECISIONS AT EDINBURGH EC SUMMIT

DENMARK: Denmark exempted from key aims of Maastricht treaty – single currency and common defence – clearing way for second Danish referendum next year.

BUDGET: Seven-year deal freezing ceiling on resources at 1.2 per cent of GDP for two years with phased increases to 1.27 per cent by 1999. Fund for four poorest states – Spain, Portugal, Ireland and Greece – worth Ecu 15.15bn ($18.9bn) over seven years.

ENLARGEMENT: Negotiations to open from January 1 with Austria, Sweden and Finland. Talks with Norway start later next year.

GROWTH: Growth initiative through infrastructure development worth $37bn via lending facility at European Investment Bank and European Investment Fund.

SUBSIDIARITY: Procedures to apply principle of subsidiarity, under which EC acts only when member states cannot achieve goal as well themselves.

TRANSPARENCY: Some ministerial meetings televised and details of votes published. EC laws made clearer.

SITES OF INSTITUTIONS: Sites of existing institutions confirmed. Countries with no EC institution to have priority for new ones

MEMBERS OF EUROPEAN PARLIAMENT: Germany receives 18 more members.

YUGOSLAVIA: Pressure on Serbia and Bosnian Serbs, systematic rape of Moslem women in Bosnia condemned, Macedonia offered economic aid but not recognition under present name.

RUSSIA: Strong support expressed for Yeltsin's reform programme.

By Philip Stephens, Political Editor in London

BRITAIN yesterday voiced growing confidence that the successful outcome of the Edinburgh summit had salvaged the Maastricht treaty. But Mr John Major, the prime minister, insisted that British ratification of the accord was contingent on a Yes vote in the second Danish referendum.

As he won plaudits from colleagues for his handling of the summit, he said the crucial third reading of the Maastricht bill in the Commons would be held after the Danish vote in late April or early May.

Senior aides said he was confident the Danish electorate would support the accord agreed by its government in Edinburgh, thus rescuing the treaty.

But Mr Major, who successfully resisted pressure at the summit to set a rigid timetable for ratification, signalled that if Denmark again voted No, Britain would also abandon ratification.

British ministers said the agreements struck on Denmark's exemptions, on enlargement and subsidiarity, would prove a turning point in efforts to isolate Tory Euro-sceptics opposed to the treaty.

In a statement to MPs today, the prime minister is expected to characterise the summit as a decisive turning point in Europe's fortunes – ending recent paralysis and setting the stage for an outward-looking and decentralised Community.

For their part, Tory Euro-

Continued on Page 18

Yeltsin wins compromise to pursue Russian reform

By John Lloyd in Moscow

THE RUSSIAN government expects to press on with its economic and democratic reforms following President Boris Yeltsin's compromise at the weekend with the Congress of People's Deputies, the conservative-dominated parliament.

The deal with Mr Ruslan Khasbulatov, the conservative chairman of parliament, extends Mr Yeltsin's special powers, enabling him to select his prime minister from a Congress shortlist.

Hailed by his supporters as a victory, it also fixes a date for a referendum on constitutional change, paving the way for the first fully elected Russian parliament.

Where the government was previously expected to survive at most until next April, it is now Congress and the Supreme Soviet, its smaller permanent body, which are under notice, since a new constitution would call for fresh elections to a new parliamentary body.

Father Gleb Yakunin, a prominent liberal deputy, said "the president now has a big advantage".

The long-term survival of Mr Yegor Gaidar, acting prime minister and guardian of economic reform, is still uncertain, but Mr Yeltsin could confirm him in the post for a further three months if he is rejected in a Congress vote, as he was narrowly last week.

Deputies will vote, probably today, on a slate of candidates to select a shortlist of three from which Mr Yeltsin will choose a prime minister.

Many deputies, even Mr Gaidar's opponents, expect him to win at least a temporary continuation of his post. But the government is also discussing the idea that Mr Gaidar could move to head economic reform, something to which he has been unable to give his full attention since becoming prime minister.

Senior ministers and advisers said over the weekend that they believed the deal, which fixed the date for a referendum on a new constitution on April 11, had raised the possibility of a new era in Russian politics - with a modern democratic constitution underpinning an elected parliament with its powers clearly defined.

One said: "In effect, the Congress were persuaded to vote themselves out of existence." The Congress, with the Supreme Soviet, is a holdover from the Soviet era – as is the much amended constitution.

However, there is concern the new government may have too little support to push through a tougher line on credits and money supply to crack down on rising inflation and a large budget deficit.

Mr Yeltsin ended his meeting with Mr Khasbulatov with:

- A constitutional referendum, with the right to frame his own question if he cannot agree it with Congress.
- An extension of his special powers, allowing him to appoint a prime minister, who must be confirmed by Congress, and issue decrees.
- The commitment from the Congress not to change the power balance between it, the president and the judiciary by changing the constitution, or the referendum law, or elect judges to the two vacant seats on the Constitutional Court.

The Congress won nothing on economic reform, although a resolution condemning the government's reform programme still stands, and its gains were confined to personnel changes. It achieved:

- The right to nominate and vote for alternative candidates for prime minister.
- The right, won earlier last week, to vote on the ministers of foreign affairs, security, defence and interior.
- The sacking of Mr Gennady Burbulis, closest aide to Mr Yeltsin, who has had several changes of title in the past.

CONTENTS

Weak response to bleak economic outlook

By Peter Norman

GROWTH

THE economic recovery initiative at the summit may, with luck, add a little to EC growth next year.

But the package, which EC leaders hope will support investment of more than Ecu30bn (£24bn) through new Community loans and guarantees, falls far short of addressing the EC's real economic problems and is unlikely to prevent further rises in unemployment.

At Edinburgh, neither the leaders nor their finance ministers tackled seriously the issue of Germany's deficit financing of eastern Germany and the current problems of the European Monetary System. Yet it is Germany's inability to reduce rapidly its dependence on borrowing for the new Länder that transmits high short-term interest rates to the other members of the European exchange rate mechanism and has contributed to recent strains in the European Monetary System.

The EC package skirts round these fundamental problems. Instead member states are encouraged to manage their economies more efficiently in the hope that this will encourage investment. They are urged, where possible, to divert public spending to infrastructure and capital projects away from current spending such as wages.

At Community level, these efforts are to be topped up by the mobilisation of new funds through the European Investment Bank (EIB) and a new European Investment Fund (EIF) with the aim of supporting investments of Ecu30bn or more over the next few years.

Mr Norman Lamont, the UK Chancellor, said the two funds "were important and imaginative initiatives that involved very substantial amounts of money that would lead to more investment."

The EIF will be capitalised at Ecu2bn, to be subscribed 40 per cent by the EIB, 30 per cent by the Commission and 30 per cent by financial institutions. This capital will enable it to give guarantees worth between Ecu5bn and Ecu10bn for projects to be carried out with other organisations. These projects, which could include investment in small and medium sized companies as well as infrastructure spending, could, the EC leaders hope, be worth up to Ecu20bn.

In addition, the EIB will create a new "lending facility" that will allow it to extend credits totalling Ecu5bn to co-finance infrastructure investment in the Community in 1993 and 1994. According to Mr Henning Christophersen, the economic affairs commissioner, the money will be used largely to finance "missing links" in the EC's transport system.

These will include improved cross-border motorway, rail and gas pipeline links inside the EC. The EIB may also use the funds to finance projects in central and eastern Europe, perhaps jointly with the London-based European Bank for Reconstruction and Development.

Mr Christophersen said the Ecu5bn in loans could support projects worth Ecu12bn Mr Lamont was more cautious, putting the likely investment at £7bn or Ecu8.5bn.

To allow the EIB to operate more flexibly, the summit agreed that it will be able to use the new facility to provide a maximum of 75 per cent of planned financing for projects compared with its normal participation ceiling of 50 per cent. The combined loan and grant ceiling for projects with a grant element will be raised to 90 per cent from 70 per cent.

The growth initiative was the summit's response to an increasingly bleak economic outlook in the EC. Mr John Major, the UK prime minister, had told fellow leaders that the meeting had to make its relevance clear to the people of Europe by focusing on jobs and growth.

Mr Christophersen said growth next year was unlikely to be much more than 1 per cent after 1.1 per cent to 1.2 per cent this year. EC unemployment, at around 11 per cent next year, would be back at the levels of the mid-1980s, he said. Capacity utilisation in industry was only 79 per cent. Inflation was falling, but not sufficiently to pave the way for a decline in interest rates.

National measures, including wage restraint, could make an important contribution to lowering borrowing costs, he said. But lower interest rates were not sufficient in themselves to boost investment. Many companies and consumers were caught in a debt trap. For that reason, the Community had decided on its growth initiative.

The new facilities, which should be ready to start operating in about six months' time, will be flanked by increased spending on poorer EC countries through the so-called cohesion funds agreed at the summit. The EC also intends to improve the management and efficiency of its research funding and place more emphasis on training.

Mr Christophersen also stressed the importance of completing the single market, progressing with deregulation and privatisation, speeding up the approval of common norms and standards and introducing tax incentives for investment.

In their final statement, the leaders ruled out any large-scale fiscal boost by reaffirming their determination to fulfil the tough economic convergence criteria in the Maastricht treaty.

Although some member states – notably Germany – had approached the idea of a growth initiative with scepticism, the summit communiqué said the leaders were "convinced" that the measures would boost confidence and growth and create jobs.

However, Mr Christophersen indicated that the loan and guarantee package would not make up for a recession-induced shortfall of investment in the EC, which he estimated at about Ecu40bn next year.

The success of the package will depend on how far companies, organisations and governments link up with the EIB and EIF to exploit the new loans and guarantees. The commissioner said many EC transport projects had been identified which could profit from the schemes and also suggested that there could be a positive "announcement effect" from the summit.

But such optimism could not disguise the age old problem with such projects. Measures such as the EIF and special EIB facility are meant to create confidence. But they can only boost the economy if there is sufficient confidence among investors to want to use such facilities in the first place.

Legalistic acrobatics rescue Denmark

MAASTRICHT

By Lionel Barber and Hilary Barnes

THE smile on Mr Uffe Ellemann-Jensen's face could easily have spanned the Firth of Forth.

"Denmark is satisfied," the Danish foreign minister declared. After five months of hard bargaining, Mr Ellemann-Jensen was visibly relieved that EC leaders had finally agreed to meet Danish demands for legally binding opt-outs on the Maastricht treaty.

The deal reached at the Edinburgh summit paves the way for the minority government in Denmark to submit a new text to voters in a second referendum on Maastricht in late April or early May – to be followed by ratification by the Community straggler, Britain.

On Saturday, Mr Ellemann-Jensen predicted a 60 per cent vote in favour – a forecast which drew polite gasps in the light of his government's failure to predict the treaty's rejection in last June's referendum. His figure was backed up, however, by the results of two opinion polls published in Denmark at the end of last week.

The final agreement is an exercise in legal and constitutional acrobatics which comes down to one crude political goal: how to keep Denmark inside the EC without watering down the Maastricht treaty to the point where its provisions are meaningless.

The new text walks a fine line in its effort to meet Denmark's requests for legally binding exemptions without reopening the treaty or producing a text requiring re-ratification by member states.

- Denmark strengthens its previously won right to avoid signing up to the third stage of European monetary union and a single currency, the core goal of the Maastricht treaty.
- The leaders note that nothing in Maastricht commits Denmark to become a member of the West European Union. "Accordingly, Denmark does not participate in the elaboration and the implementation of the Union which have defence implications."
- Denmark has won legally binding exemptions from measures on EC citizenship and EC co-operation on justice and home affairs matters.

The drafting involves a "decision" by heads of government which has the force of international law with a unilateral Danish political "declaration" which restates its opposition to join in citizenship of the "European Union" envisaged under Maastricht.

In return, Denmark has agreed not to exploit its opt-outs to prevent the other EC members from pressing ahead with the objectives of Maastricht. Similarly, in an effort to limit the political damage, member states have declared that the opt-outs are only in response to the failure of the treaty in the first referendum. These exemptions are "fully compatible" with the treaty, the statement adds.

Few EC leaders in Edinburgh were prepared to argue the legal niceties of the Danish deal, though Mr Major admitted on Saturday that it could not be tested in the European Court of Justice.

The agreement was welcomed by business leaders in Denmark and greeted by newspaper headlines in Copenhagen as "Triumph for Denmark" and "Europe Gave Way".

Yesterday seven of the eight parties in the Folketing backed the Edinburgh deal.

Heads of government have been assured that the deal is legally watertight.

Major will try to build on success

By Philip Stephens

BRITAIN

THERE are no easy triumphs on offer in Europe for Mr John Major. Until Britain has ratified the Maastricht treaty, the prime minister will be unable to dispel the suspicion of his continental colleagues that he remains a reluctant participant in the European enterprise.

But it would be churlish to suggest that the summit was anything but a personal success. After the chaos and confusion of recent months, Mr Major could claim with justice that his government – and the Community – had begun to regain their balance.

Mr Major deserves much of the credit. The basic impetus for the deals struck at Edinburgh was a recognition by all 12 leaders that the price of failure was too high. But the prime minister provided the skilful chairmanship which allowed each delegation to dress up collective compromises as individual successes.

Mr Poul Schlüter, the Danish prime minister, described Mr Major's handling of the summit as "elegant and effective". Mr Albert Reynolds, the Irish premier, offered a similar judgment. Even President François Mitterrand allowed himself a grudging compliment.

Mr Major intends to capitalise on the plaudits – and on the substantive deals struck in Edinburgh. Doubts over Maastricht and Black Wednesday handed the initiative to the Tory Euro-sceptics. Now Mr Major thinks he can regain it.

The balance sheet he will present to the Commons later today he will list a string of successes for his brand of pragmatic Europeanism.

British ingenuity ensured that Denmark had another opportunity to move forward with the rest of the Community. The declaration on subsidiarity met demands that Brussels give substance to the commitment to decentralise authority.

All 12 governments are pledged to push ahead with negotiations to enlarge the Community, initially to include Austria, Finland and Sweden. Mr Major defended successfully the British budget rebate. With the eventual help of Chancellor Helmut Kohl, he resisted demands that he set a firm timetable for ratification of Maastricht at Westminster. He found time also to settle long-standing disputes over the sites of the EC's main institutions and to give Germany extra European MPsto reflect unification.

The balance sheet carries its minuses also. The Tory sceptics seized yesterday on the concessions which he was forced to give on the size of the budget. They will make much of the concession to Brussels "profligacy" during the interminable New Year debates at Westminster on Maastricht.

For many other European leaders subsidiarity is a useful but essentially unimportant concept. Negotiations on enlargement may begin before Maastricht is ratified but progress remains contingent on the treaty coming into force. On the admission of some of the participants the economic initiative drawn up by the finance ministers will do little to dispel the gloom over European growth prospects.

There was no doubt though that Edinburgh was a summit shaped much more by Mr Major's pragmatism than by the European idealism of Mr Mitterrand or Chancellor Helmut Kohl. That will give the prime minister a powerful weapon in his attempts to detach from the irreconcilable Tory critics of Maastricht a much larger group of waverers.

His message now to his party will be simple: the great mass of the Conservative party wants a decentralised, wider, Community with the bureaucratic wings of Brussels clipped. He can deliver it. The Tory doubters in return must ensure that Britain retains its voice in Europe by ratifying the treaty.

If the Danish people vote Yes in a second referendum the message will be unanswerable. The Maastricht treaty could well be on the British statute book by the end of July.

Mr Major's problem is that all-important "if". Mr Douglas Hurd, the foreign secretary, acknowledged that the government would abandon ratification in the wake of a second Danish No vote. He accepted also that the other 10 probably would push ahead with a new version of the treaty from which Britain as well as Denmark might be excluded. The uncomfortable implication is that Britain's future in Europe for moment may rest with the tiny Danish electorate.

Kohl at the final press conference: again supported key elements of Major's policy

Pivotal role for headmaster Kohl

By David Marsh and Peter Norman

GERMANY

MR Helmut Kohl, the German chancellor, adopts at European summits the air of a convivial headmaster shooing a class of errant schoolboys into line. One senior British diplomat calls Mr Kohl's relationship with his host at Edinburgh host, Mr John Major, "avuncular". "It's a bit like a football manager who's seen a favourite player come good," the diplomat adds.

Mr Kohl played a pivotal role in Edinburgh in several ways. First, and most important, he backed key elements of Mr Major's policy – just as he had done at Maastricht a year ago, when his support allowed Britain its "opt-outs" in monetary union and social policy.

Mr Kohl's willingness to allow Mr Major time to overcome ratification hurdles in the House of Commons was already clearly expressed when the two leaders met in Oxfordshire last month. Although the chancellor does not want to give the UK unlimited leeway, he accepts that a formal deadline would stoke up rather than diminish parliamentary opposition.

He is confident that Mr Major will be able to put the Maastricht bill on course for full ratification by the summer – even though the closing stages of passage through the House of Lords and the royal assent may not be completed until later.

Mr Kohl repeated several times that he could not wait "for years" for the Maastricht laggards to ratify. But he showed no enthusiasm for the rest of Europe leaving Denmark and Britain behind. He also stressed that the start of enlargement negotiations with Sweden and Finland next month would boost pro-EC feeling in neighbouring Denmark as campaigning for the new Maastricht referendum there gets under way in the new year.

In another crucial area, Mr Kohl backed Mr Major's insistence that Britain's EC budget rebate, negotiated in 1984 and worth about £2bn a year, should not be renegotiated. Mr Major's Maastricht ratification difficulties made it "a favourable time" for Britain to encourage its partners not to spark a new EC row over the rebate, Mr Kohl remarked whimsically on Friday night.

Mr Kohl's personal links with other EC leaders came to the fore during Saturday's late-night argument with Spain over the share of the Community budget channelled to the poorer countries. Mr Kohl said he had made "a substantial verbal contribution" to try to calm the row with Mr Felipe González. On Friday Mr Kohl disarmingly said that he regarded himself as a friend of the Spanish prime minister, but none the less could not explain Mr González's summit outbursts over the cohesion fund.

Over the question of economic and monetary union, Mr Kohl showed himself in no hurry over a decision on the site for the proposed European central bank – an institution Germany badly wants in Bonn or Frankfurt. Before the negotiations, German officials said they did not expect the matter to be agreed in Edinburgh. Mr Kohl said the question could perfectly well be settled next summer.

He believes the question of when the site of the institution is decided is secondary – as long as, in the end, it is in Germany.

Balance of power on policy-making unaltered

By David Gardner

SUBSIDIARITY

JUST before the Edinburgh summit, a European Commission official said he expected the EC would be able to agree "a text sufficiently meaningless to everyone" on subsidiarity, to get through the artificially pumped-up debate on how to divide power between the Community and the member states.

He was broadly right. The conclusions on "subsidiarity" are modest. There will be no rolling back of Community activity and the Commission retains its sole right to propose legislation. Instead, there will be a greater onus on the Commission, on national ministers, and on Euro-MPs to demonstrate that action at EC level is in response to real needs in the member states.

The European institutions will have to show that their supranational plans have added value for EC members, and that the means required to implement them are proportional to the desired end. They will also have to ensure the widest possible scope for national decision-making and to consult more broadly before proceeding, through means such as green papers.

To open up decision-making to greater public scrutiny, important policy debates and "major new legislative proposals" will be televised for the press. But, as now, the real negotiating process will still be shielded from view. The record of all formal votes in the Council of Ministers will be published, with member states explaining their decisions if they so wish. But already ministers go to great lengths to avoid embarrassing any of their number through formal votes, so this measure is unlikely to make the defence of national and vested interest more visible.

For the moment, the balance of power within the "ever-closer union" postulated by Maastricht has not changed.

The bonfire of 71 items of EC law and Commission proposals sought by the UK became a damp squib. Laws will be updated, to make them less intrusive and easier to implement nationally or locally. But the Commission is withdrawing a mere score of planned measures, some so arcane that officials could not be found to explain what they were.

At a later date, an "inter-institutional accord" between the Commission, the European parliament and the Council of Ministers will make clear that all power is vested in the member states except where otherwise specified. This essentially federalist principle is implicit in both the Treaty of Rome and the Maastricht treaty.

What was reaffirmed at Edinburgh was the EC's political preference for decision-making at national, and in most cases, regional, level, combined with its need for some decisions to be taken at supranational, Community level. In a word, federalism – at least as most Community members understand it.

Spain 'first, first, first' but other members do well too

By David Gardner

BUDGET

WHEN the word "handbag" was mentioned at Mr Felipe González's end-of-summit press conference, the Spanish premier and his ministers roared with approving laughter at this comparison with Mrs Margaret Thatcher's 1984 feat in extracting an EC budget rebate for the UK.

Not since then has a member state so successfully held the Community to ransom, and Mr González was not shy about proclaiming his achievement, or about having put Spain's national interests "first, first and first", as one of his officials candidly expressed it.

Mr González pointed out that "for Spain there will be a doubling" of the development aid all poorer member states get through EC "cohesion" policy – contributions to the Community budget from the rich north and centre of the EC which are transferred to the south and the periphery.

Chancellor Helmut Kohl of Germany, the Community's main paymaster, described the outcome as "a solid compromise... between the poor and the developed countries."

It is no exaggeration to say that the future of the European Community hung on this compromise. Mr González and his allies from Ireland, Portugal and Greece had demanded budgetary satisfaction as their price for endorsing the Danish opt-outs from Maastricht which are essential for all the 12 to be able to ratify the treaty. And next year's enlargement negotiations on EC entry for Austria, Sweden, Finland, and eventually Norway would not have won their sanction without agreement on future financing.

Yet, as Mr González acknowledged, the new budget package is, overall, tight when measured against the ambitions of Maastricht, and the interpretation of them by Mr Jacques Delors, the European Commission president.

Overall, the EC budget will rise from Ecu66.8bn (£54bn) now to Ecu84.1bn in 1999, in today's money. The budgetary ceiling, expressed as a portion of joint EC gross national product, will rise from 1.2 per cent now to 1.27 per cent in 1999. The cash increase will be greater over the seven years than this lifted limit suggests, because this year's spending – at around 1.14 per cent of EC GNP – still has "headroom" under the ceiling.

Mr Delors had originally proposed a rise to 1.37 per cent over five years, or an increase to Ecu87.5bn by 1997. He compromised last month, suggesting a rise to Ecu86.2bn over seven years (for a ceiling of 1.32 per cent of GNP in 1999). But Mr John Major, as current president of the EC Council, after first refusing any change in the ceiling, had insisted on holding the line at 1.25 per cent, which would have allowed spending of Ecu79.4bn in 1999 on current EC growth and inflation projections.

Total "structural" spending is to rise from Ecu18.6bn now to Ecu30bn in 1999. The main increase will be in the Structural Funds, which rise to Ecu27.4bn in 1999, and second, the new Cohesion Fund created by the Maastricht treaty, which will by then make up the Ecu2.6bn balance. This new fund is solely for Spain, Ireland, Portugal and Greece, as their per capita income is less than 90 per cent of the EC average, and is to help them meet EC environmental standards and fill in the "missing links" in pan-European transport networks.

Spain gets its doubling of fiscal transfers not least because it has informally endorsed claims on 55 per cent of the Cohesion Fund. The other "cohesion" countries are not too unhappy because the main increase in the Structural Funds applies to them.

Germany also gets a saleable deal. There is unlikely to be any net increase in its huge Ecu9bn net contribution to the budget. Mr Horst Köhler, the German state secretary for finance, pointed out that new eastern states would get treatment equal to that of the cohesion countries, worth some DM13bn (£5.3bn) over seven years – something of a rebate for Germany.

The UK rebate, worth some £2bn a year but hotly contested by Mr Kohl, was left intact.

The unpopular French government also got a discreet political fillip from its partners, opening the way to compensation for French farmers now up in arms about the Uruguay Round farm trade deal. There is to be no formal relaxing of farm spending limits, which will rise as foreseen from Ecu35.3bn now to Ecu38.4bn in 1999.

But there is a "weasel" paragraph allowing "appropriate steps" to meet exchange rate turbulence – which Commission officials already reckon could plausibly produce an additional Ecu1.5bn for farmers.

It is "internal policies" – on the environment, transport, R&D and infrastructure – which suffered most from the success of Spain and its allies in prying loose the most from a tight Community wad.

These policies are the bread-and-butter of the EC's recent expansion of its competence. The UK, which prefers loose co-operation between governments to Community action stimulated in Brussels, well knew that it was the latter which would be squeezed most when it decided to be parsimonious on EC finance. Spain was not the only victor of the compromise.

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Legalistic acrobatics rescue Denmark

MAASTRICHT

By Lionel Barber and Hilary Barnes

Treaty may leak through loopholes

BY contrast with earlier predictions of apocalyptic failure, the British government can claim to be reasonably satisfied with the way it managed the summit negotiations.

The Danish problem was settled after a fashion, a pragmatic compromise was hammered out on expanding future Community budgets, and limits were placed on future Community legislation, in the name of the much-derided principle of "subsidiarity".

Ahead of the summit, Britain had been castigated for its "calamitous" presidency of the Council; but other member states have gracefully shifted from vituperation to compliments, and even forbore to insist on any new deadline for British ratification of the Maastricht treaty.

Yet the Edinburgh meeting has been an essentially inconclusive affair. A year ago the 12 were in various states of euphoria over the completion of negotiations on the Maastricht Treaty of European Union. Today the future and even the status of that treaty are in doubt, and these doubts have not been resolved by this weekend's summit meeting.

The two central features of the treaty are a programme for Economic and Monetary Union, and a commitment to a common foreign and security policy, but both of them are now seriously in doubt. Since the monetary upheavals of this autumn, it is hard to believe that the Emu programme is feasible in the terms laid down by the treaty. In the light of events in ex-Yugoslavia, the claims of a common European foreign policy look derisory.

The most pressing question was the Danish conundrum: how to give the Danes a series of opt-outs from the treaty, in a form that was sufficiently "legally binding" to enable them to hold a second referendum, but not so legally binding as to require a new round of ratification in the other member states. That circle now appears to have been squared through the ingenious inventiveness of the Community's lawyers.

And yet everyone knows that circles cannot really be squared. Appearances have been saved by the Danish deal, but the real result has been to void the Maastricht treaty of a little more of its content.

The British government may nevertheless believe that the cumulative effect of the Edinburgh package can be seen as a significant double victory for its vision of a Community which is larger, looser and less integrated. The first half of that victory is the Danish deal: if Denmark can be allowed a comprehensive opt-out from most of the main objectives of Maastricht, those objectives cannot really be binding on the other member states.

But the second half may seem just as significant, and that is the decision to open membership negotiations with the candidate countries from the European Free Trade Area.

The summit has failed to resolve doubts about the future of Maastricht, writes Ian Davidson

Britain would always have preferred a larger but looser Community, ideally nothing more than an inter-governmental free-trade area; so the combination of a deal which weakens the Maastricht treaty, and a decision to open the Community to a significant number of new members, looks very much like a setback for countries like France, which were demanding a "deeper" and more integrated Community.

However, it may be premature to claim a final victory in the long-running battle between the wideners and the deepeners. The wideners have won a skirmish, with the decision to open negotiations on the enlargement of the Community, even before the Maastricht treaty is ratified by all 12 member states. But these negotiations will compel the 12 to debate how a larger Community is to be governed and how it is to take decisions.

By definition, the 12 will have to choose between a Community which will be hamstrung by swollen numbers, or one which must accept more majority voting for the sake of effectiveness. They will have to consider whether the universalist model of European integration can be maintained with a larger number of member states, or whether it will be necessary to go towards a multi-speed Europe. And they must consider whether a large Community can continue to give a large voting premium to small member states.

In other words, the prospective enlargement of the Community will compel the 12 to confront constitutional issues which remained largely suppressed or shelved in the Maastricht treaty. This will not be an attractive agenda for the inter-governmentalists; and yet on certain aspects of this enlargement agenda, for example the relative voting weights of large and small countries, Britain, as a large country, could have a position similar to that of the deepeners. This is just one of the ironies of the integration game.

The paradox is that these negotiations will require the prospective member states to swear their firm commitment to all the obligations of the European Community as modified by the Maastricht treaty; but they will be conducted under the presidency of Denmark, which has just been offered a comprehensive opt-out from these very obligations. There is no easy way of avoiding this charade; but it cannot fail to cast a certain disrepute on the treaty process.

Some people profess to believe that the four or five applicants from Efta can be admitted without a serious federal-intergovernmental argument. Subsequent phases of enlargement to 25 or 30 member states would call for far-reaching revision of the Community's rulebook; but this first little enlargement would not require any significant reduction in the voting premium accorded under present rules to the small member states.

The naïveté of this position will not stand up to the pressure of reality; the terms of this enlargement will automatically dictate the terms of subsequent enlargements. In a Community of 16 or 17, the small countries would be in a massive numerical majority, with half the weighted votes but with only a quarter of the population.

Everybody knows that this weighting discrepancy will either be rectified before the Efta enlargement, or it will never be rectified. Since the question cannot be postponed to some easier time, it will be addressed, implicitly or explicitly, during the course of the Efta enlargement negotiations.

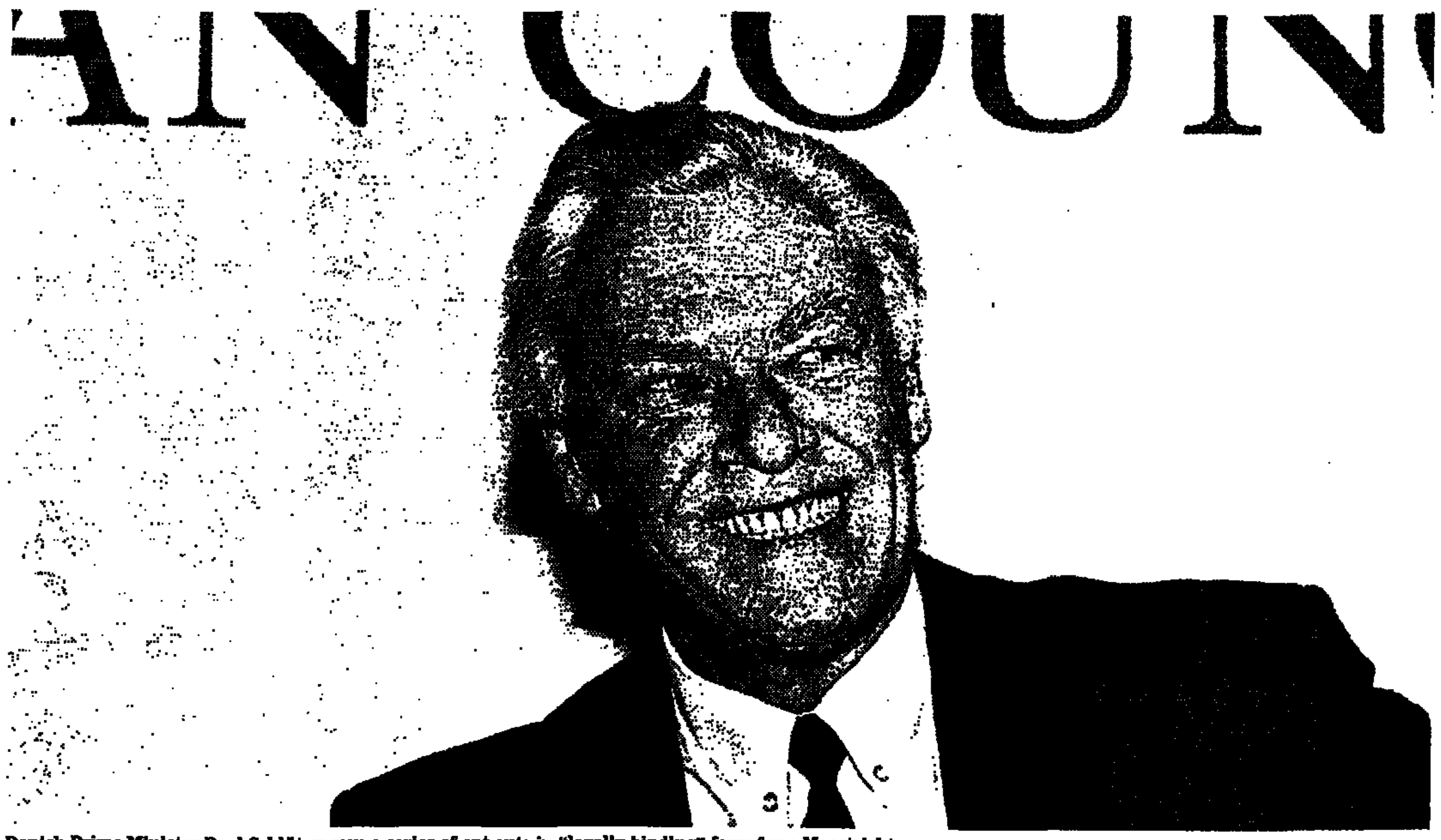
The same logic will require a thorough review of the constitutional issues in the Maastricht treaty. The treaty itself calls for a special inter-governmental review conference in 1996. The conventional hypocrisy is that this review should take place after the admission of new members. No-one seems to acknowledge that it is an extraordinary idea that new members, who have spent 40 years refusing to join the Community, should be voting on the revision of the Maastricht treaty within weeks of their admission to full membership. The logical inference is that the 12 will have to hold their Maastricht review before they admit new members from Efta.

Moreover, there will be one serious policy embarrassment in the admission of members from Efta. The Danes may be desperate to back out of the commitment to a common foreign and security policy, including eventually a defence policy. But some candidate countries, like Finland and Sweden, are keen to take on these new aspects of the Community, and will eagerly seek to join the Western European Union defence grouping.

Here lies the rub. The WEU treaty includes a far-reaching mutual security guarantee, but it does not have any military organisation; all that has long since been delegated to Nato. The natural assumption is that the new arrivals should also join Nato; and yet it is virtually inconceivable that Washington would agree to an extension of its nuclear security guarantees, just when it is shrinking its military presence in Europe.

So if the new Community members seriously claim the protection of WEU, the existing member states will have to consider whether WEU is to be endowed with real military capability; which would mean a military organisation distinct from Nato and therefore separate from the US.

It is possible, of course, that none of these questions will be put to the test. The Swiss have already voted against the European Economic Area, which would be an ante-chamber to full membership; and opinion polls suggest that a majority of the Finns, the Norwegians and the Swedes are opposed to full membership. But perhaps they will change their minds, when they see that the Danish deal means that joining the Community does not really mean anything much after all.



Danish Prime Minister Poul Schlüter: won a series of opt-outs in "legally binding" form from Maastricht

Fergus Wilkie

Problem stays on the agenda

MACEDONIA

By Robert Mauthner

GREECE has temporarily succeeded in blocking European Community recognition of the former Yugoslav republic of Macedonia, but the problem remains on the agenda of foreign ministers.

The concluding declaration of the Council on Macedonia was variously interpreted as being a victory for the Greek position or merely a postponement of a particularly delicate decision which could have scuttled the whole conference.

If other member countries had insisted on recognising Macedonia under that name, Greece could have blocked approval of all the other important decisions taken by the heads of government, including those on Denmark and the future financing of the Community. Unanimity remains the rule for European Councils.

Though Mr Constantine Mitsotakis said after the meeting that the EC would continue to be bound by "the united policy" proclaimed in last June's Lisbon declaration, which stated that the former Yugoslav republic would be recognised only under a name other than Macedonia, the Council's statement on the subject was more ambiguously worded.

The special representative, Mr Robin O'Neill, a former British ambassador, had suggested various compromise proposals acceptable to the republic's president Kiro Gligorov, including naming the new state "the Republic of Macedonia (Skopje)", to distinguish it from the northern Greek province of Macedonia.

The Greeks claim that to call the new state Macedonia would provoke ethnic conflict in the region, particularly by encouraging territorial claims on the neighbouring Greek province.

Though Mr Douglas Hurd, the British foreign secretary, said no participant had challenged the Lisbon declaration, Mr Hans van den Broek, his Dutch opposite number, said the summit decision to give Macedonia economic aid and the despatch of United Nations military observers there provided the basis for further discussions about recognition.

It was agreed that the Community would provide Ecu100m (£80m) of humanitarian and technical assistance to Macedonia, half of which would be provided by the European Commission out of common funds and a matching amount from member states.

● Macedonians said yesterday they were deeply disappointed, but not surprised, by the EC's failure to recognise their republic, Laura Silber writes from Skopje.

Government officials, however, said they were pinning their hopes on the UN. The UN Security Council is due to consider recognition this week.

Good news for Nordic applicants

ENLARGEMENT

By Robert Taylor in Stockholm

NORDIC governments welcomed the decision to start the process of EC enlargement early in the new year. Formal negotiations are expected to begin with Sweden, Austria and Finland by the end of January and with Norway within a few months.

"The outcome of Edinburgh strengthens our chances of becoming a member of the European Union in January 1995," Mr Carl Bildt, Sweden's prime minister, said yesterday.

His trade minister, Mr Ulf Dinkenspiel, who will lead Sweden's negotiation, added: "Conditions have improved radically.... We will have entry terms in good time to put to a referendum in 1994."

However, a poll published yesterday indicated that as many as 50 per cent of Swedes oppose membership, with 33 per cent in favour and 17 per cent uncommitted. Strongest hostility was among people aged 16-29 and blue-collar workers.

Opinion remains more favourable in Finland, where a majority back membership. But in Norway attitudes are hardening strongly against EC entry. In the latest survey 54 per cent said No and only 30 per cent Yes.

NEWS IN BRIEF

Italian poll set to test old parties

MUNICIPAL elections yesterday and today in 55 Italian cities and towns will provide the first serious test of electoral opinion in the country since the April general elections, writes Robert Graham in Rome.

The main focus is on the towns of Monza and Varese in the Milan industrial belt, where opinion polls show the populist Lombard League is likely to consolidate its position as the main political party in northern Italy at the expense of the Christian Democrats and the Socialists.

The League burst on the scene in the past 18 months with limited funds but profiting from public disillusion with a corrupt political establishment.

It is aiming for over 35 per cent of the vote in Varese and hoping to control its first local administration in the country.

Warning by French left

France's ruling Socialists launched their campaign for next March's election yesterday with a warning that their forecast rout would give the political right boundless control over the state.

Prime Minister Pierre Bérégovoy told a seminar of Socialist election candidates a parliament totally in the hands of right-wing parties would be "a darkroom."

● Mr Edmond Alphandéry, a centrist politician, yesterday turned down the job of France's junior European Community Commissioner, saying he would rather run for re-election to the French parliament next spring, writes David Buchan in Paris.

Dushanbe battles rage

Gun battles raged in suburbs of the Tajik capital yesterday with Islamic guerrillas stepping up hit-and-run attacks two days after the arrival of a new government in Dushanbe, Reuter reports from Dushanbe.

The guerrillas set ablaze fuel storage tanks and fought with ex-communist gunmen in the city's southern Islamic stronghold of Avul where a senior Russian army officer said six people were killed in clashes which knocked out a thermal station providing much of the heating of the city.

CSCE moves on Russians

The 52 nation Conference on Security and Co-operation in Europe agreed at the weekend to establish a secretariat in Estonia to safeguard the minority rights of Russians living in the former Soviet state, writes Robert Taylor in Stockholm.

Observers are expected to be in place early in January.

The move supports a Swedish initiative taken a few months ago to try to reduce ethnic tensions in Estonia. The CSCE mission would provide Russians there with means to air grievances they might have about discrimination against them by the Estonian authorities, the government said.

Clinton friend to head White House

By Jurek Martin in Washington

US President-elect Bill Clinton announces his choice of Democratic Party chairman Ron Brown (left) as commerce secretary and Thomas McLarty (right), a lifelong friend, as White House chief of staff during a weekend news conference in Little Rock, Arkansas

BY common consensus, the best White House chiefs of staff in the past 20 years have been Dick Cheney in the Ford administration and James Baker, in President Reagan's first term: the worst are considered to have been Hamilton Jordan, who worked for President Carter, and John Sununu under President Bush.

The first two were successful because of their native political skills, their understanding of their presidents and administrations and a relative self-effacement on the job.

The second pair fared less well because they were combative and were sometimes contemptuous of Washington and its ways, and, in Mr Sununu's case, ferociously ideological.

In choosing Thomas F McLarty, the Arkansas businessman whom he has known since kindergarten, President-elect Bill Clinton has made it clear that he wants in this sensitive position somebody he instinctively trusts and who is more interested in pursuing the presidential agenda than any personal crusade or self-publicity.

With 11 senior positions now in place, the Clinton administration is shaping up as an interesting combination of the Washington and Wall Street establishment mainstream on the one hand and a new breed of outside activists on the other.

More than that, he expects them to work together in ways that the capital has not seen for some time.

Ron Brown, named on Saturday to be the next Secretary of Commerce, is the quintessential political insider.

The 51-year-old black lawyer's career has moved seamlessly from the civil rights movement through the Urban League, the effective lobby for the cities, and a stint as the Rev Jesse Jackson's right hand to a fabulously successful four years as national Democratic party chairman.

His law firm represents any number of corporate and foreign clients, including, at one stage, the Haiti of President Duvalier.

These connections may make his confirmation hearings tougher than most but Mr Brown's ability to sail through apparent political and private conflicts of interest is impressive.

Mr Clinton said he wanted the commerce department under Mr Brown to be a "powerhouse" in Washington.

Partly because of the commerce department's amorphous responsibilities and partly because it has been traditionally used purely for political reward, this has not been its reputation for many years.

But, in the Clinton administration, it will have a place on the new economic advisory body to be chaired by the president himself and directed by Robert Rubin, now the co-chairman of Goldman Sachs. So will another relative backwater, the labour department, under Robert Reich, the Harvard professor.

Mr McLarty's appointment, in the opinion of many political observers, makes more likely the selection of Mr Warren Christopher as secretary of state.

In an interview yesterday, Mr Christopher, a former deputy secretary of state and now the director of the transition team, brushed off all such speculation, which is based mostly on the fact that he was thought to have had the option of three jobs, two of which have been otherwise earmarked: chief of the White House staff and, though yet to be determined, attorney general.

It is also deemed significant that Mr Clinton has chosen his economic and social policy teams first, thus fulfilling an essential promise of his campaign.

On Friday, he took issue with a questioner who wondered why he had not first named the four cabinet secretaries traditionally considered the most senior – state, defence, justice and treasury.

He was careful to add, however, that this did not imply a relegation of foreign and security policies, which, he said, should be active and pre-emptive so that his administration would not be "swamped" by a succession of demanding external crises

Military force sought over Serb flights

By Robert Mauthner in Edinburgh

INTERNATIONAL pressure for the use of force to implement the "no-fly" zone over Bosnia, imposed by the United Nations last October, was stepped up over the weekend, with both the US and France calling for military measures against Serbian aircraft violating the ban on flights.

Following the adoption of an unusually tough declaration condemning the leadership of Serbia and the Bosnian Serbs by European Community leaders, Mr François Mitterrand, the French president, said France would formally ask the UN Security Council to authorise the enforcement of the zone. The original Security Council prohibiting military flights over Bosnia did not specify how the ban on flights would be enforced.

Mr Mitterrand's announcement followed a statement earlier on Saturday by Mr Lawrence Eagleburger, the Secretary of State in the outgoing US administration, that the US was now also ready to back the use of force against Serbian aircraft. Mr Dick Cheney, US defence secretary, joined Mr Eagleburger in expressing over the weekend a hardening on the US position.

The decision has the backing of Mr Bill Clinton, the US president-elect, who had spoken in favour of enforcement the previous day.

President Mitterrand went a step further than the declaration of the European Council, which merely stated that the 12 leaders reaffirmed their support for Security Council resolution 787, "which provides for the necessary measures, including military, to be taken to ensure the safe delivery of humanitarian assistance." But there can be little doubt that opinion among other members of the Security Council, including Britain, which has so far been very hesitant about the adoption of measures that could endanger the lives of British troops of the UN contingent in Bosnia, is swinging in favour of some kind of military action to prevent Serbian aircraft from violating the UN ban.

In its declaration on the former Yugoslavia, the European Council accused both the Serbian and Bosnian leadership of bearing "the primary responsibility" for the conflict "and its brutality" in the region.

"In defiance of UN Security Council Resolutions, the Serb forces in Bosnia-Hercegovina have undertaken a savage campaign of military aggression, ethnic cleansing and the persecution and torture of civilians," the EC leaders said in their concluding document. "Those responsible for all these crimes against humanitarian law by the different sides will be held personally accountable and brought to justice."

The Council said that it would not accept the partition of Bosnia-Hercegovina and strongly supported the efforts of the co-chairmen of the Geneva peace conference, Mr Cyrus Vance and Lord Owen, to achieve a constitutional settlement which would recognise the multi-ethnic character of Bosnia-Hercegovina.

It also called for more action to provide protection to the civilian population.

The leaders stated firmly that the autonomy of the province of Kosovo within Serbia must be restored and said that it was in favour of "a UN presence" in Kosovo.

In a separate declaration on the treatment of Moslem women in the former Yugoslavia, the European leaders said they were "appalled" by the systematic detention and rape of Moslem women.

Nafta urged as model for western trade pact

By Stephen Fidler, Latin America Editor

THE North American Free Trade Agreement should be used as a core around which to build a western hemisphere free trade pact, an influential Washington-based foreign policy group says.

The proposal is one of a series of recommendations in a report published today by the Inter-American Dialogue of the Aspen Institute. The report from the group, which includes prominent Democrats, is in part aimed at influencing Clinton administration policy towards Latin America.

The report argues that a new multilateral organisation is needed to guide and co-ordinate progress towards a western hemisphere economic community. In the meantime, the Nafta partners – the US, Canada and Mexico – should begin consultations to establish procedures for building Nafta into a hemispheric free trade pact.

Chile would be a likely first candidate for membership.

Efforts should also be made to pave the way for the participation of the smaller countries of central America and the Caribbean, which are likely to suffer from Nafta.

Rejection of Nafta would, says the report, "gut the core of future hemisphere-wide trade arrangements".

The report also proposes strengthened collective action among American states to preserve democracy in the region and a forceful collective attack on poverty and inequality.

It calls on external organisations to put financial, intellectual and political muscle behind national anti-poverty programmes, with the World Bank and the InterAmerican Development Bank committing at least one-third of their Latin American lending to poverty reduction. It also urges governments of the hemisphere to promote negotiated settlements of Latin America's remaining guerrilla conflicts and to look at their armed forces, with the objective of establishing firm civilian control over the military.

Convergence and Community: The Americas In 1993. Published by InterAmerican Dialogue of the Aspen Institute, 11 Dupont Circle NW, Suite 502, Washington DC 20036.

IMF may revoke membership of Yugoslavia

By George Graham in Washington

DIRECTORS of the International Monetary Fund meet in Washington today to consider revoking Yugoslavia's membership, opening the way for Croatia and Slovenia to rejoin the IMF and its sister institution, the World Bank.

The move would call into question around $1.7bn (£1.1bn) of World Bank loans outstanding to the other Yugoslav republics, possibly leading to a formal default for the first time in the Washington-based development institution's history.

Discussions have been under way for some time over a legal formula that would, in essence, declare that Yugoslavia no longer exists and that its IMF membership has therefore lapsed. The World Bank would be obliged by its rules to follow suit.

The republics could then be invited to reapply for membership, but under conditions that would ensure that Serbia, viewed as the aggressor in the civil war, would not qualify.

Croatia and Slovenia have accepted responsibility for their share of World Bank loans made to Yugoslavia, although Serbia could repudiate its portion, estimated at $1.5bn – roughly equivalent to a full year's net income for the World Bank.

Bank officials say their exposure is already partially provisioned, but acknowledge that if they had to provision their Serbian loans in full it would cause a "downward blip" in net income.

While the IMF has some credits outstanding to Yugoslavia, its exposure is much smaller than the bank's, and some bank directors have questioned whether their Fund colleagues are sufficiently sensitive to the financial implications of ending Yugoslav membership.

But the twin political imperatives of, on the one hand, allowing Croatia and Slovenia into the international financial community and, on the other, drumming Serbia out, are likely to override these financial considerations.

The bank has already had to place $1.7bn of its total $2.02bn loans outstanding to Yugoslavia – which includes the Serbian, Bosnian and Macedonian shares – in "non-accrual" status, which means they are not being serviced, so repudiation would add little risk.

Counting Yugoslavia, the World Bank has around $3.8bn of loans in non-accrual status, nearly 4 per cent of its outstanding loan portfolio. Its provisions at the end of its financial year amounted to $2.54bn, or around 2.5 per cent of outstanding loans.

Some industrial member countries have argued that this provision ratio is inadequate, and Mr Denis Desautels, Canada's auditor general, last month joined this criticism.

German investors tax the Bundesbank

By David Waller in Frankfurt

THE EUROPEAN MARKET

ACCORDING to cliché, Germans stick to the rules. When it comes to tax affairs, however, they are compulsive rule-breakers.

Only a desire to get round the law can explain the massive flow of German funds into Luxembourg and other tax havens before next month's introduction of a 30 per cent tax on interest income.

There is nothing illegal about shifting funds to Luxembourg – so long as the income on those investments is subsequently declared to the tax authorities.

But it seems many Germans have no intention of declaring this income. Mr Johann Wilhelm Gaddum, a member of the Bundesbank's policy-making council, made this clear in a speech last month, when he condemned the outflows as a form of "money-laundering".

He said the amount of money likely to leave Germany by the end of the year would exceed the sum which departed in 1988-89.

Then, Germany's financial markets and the D-Mark were disturbed by a cash exodus before the introduction of a 10 per cent withholding tax on interest income.

In the first nine months of this year, Germans invested DM31bn in Luxembourg funds managed by German banks, and only DM4bn in domestic funds.

Dresdner Bank's investment subsidiary recently reported that funds under management in Luxembourg have trebled to DM14bn since the beginning of the year. At Deutsche Bank, Luxembourg funds have nearly doubled to DM27bn.

These figures understate the overall outflows. They do not include money deposited with non-German institutions in Luxembourg – or cash transferred across other frontiers, to Switzerland or Austria, for example.

Frankfurt economists estimate that the total outflow for the year could be about DM100bn, compared with DM72bn which left the country in 1989.

The flow of money worries the Bundesbank. It has contributed to extra demand for banknotes, as Germans have cashed in their investments and driven across the border to Luxembourg to buy securities there.

"It is entirely normal for someone to walk into our branch here with DM50,000 or DM300,000 in cash," says the head of the Luxembourg subsidiary of one German bank.

The increase in cash in circulation has been one factor behind the sharp growth in money supply, now growing at an annualised rate of more than 10 per cent.

The transfers are also of concern for the German government, keen to increase its tax revenues so as to reduce its budget deficit.

Mr Theo Waigel, the finance minister, has aimed a number of verbal fusillades at the banks, accusing them of publishing misleading advertising for their Luxembourg operations.

The new tax is designed to avoid the problems associated with the original 10 per cent withholding tax introduced at the beginning of 1989. This tax drove foreign investors away from the German markets and was abolished a few months after it was introduced because of the damage it was doing to Germany's status as a financial centre. The German constitutional court in Karlsruhe subsequently ruled that a replacement tax would have to be implemented.

This time, foreign investors are excluded, and most domestic taxpayers will not have to pay any tax either.

Individuals earning interest of DM6,000 or less, and married couples earning DM12,000 or less, will be excluded from the tax.

It is thought that only the wealthiest 20 per cent of the population will be affected. Assuming interest rates of 6 per cent, a married couple must have savings of over DM200,000 before they become liable for any tax.

Many people however seem to be moving their funds although their income is below the tax threshold. One factor may be the banks' advertising which – as Mr Waigel has complained – tends to give the impression that everyone would be better off investing in Luxembourg.

Another reason is that people are seeking to avoid tax on income which should have been declared years ago. The new tax is deducted at source. For investors to receive a rebate if their income falls below the threshold, they must first declare it to the tax authorities.

"If you have hidden your capital for the last five years, you have to continue to hide it," says one Luxembourg banker. "If you suddenly put it in your income tax declaration, the tax officer will obviously ask where it came from. You will end up being taxed retroactively."

"It is fair to say that taxes have never been paid on the funds which are flowing now," says Mr Pierre Jaans, director general of the Luxembourg Monetary Institute, the Grand Duchy's equivalent to a central bank.

Mr Jaans says Luxembourg would be willing to participate in a pan-European harmonisation of tax systems, which could help prevent such large capital transfers in future. Since the chances of this happening are fairly remote, the D-Marks will presumably carry on taking the road to Luxembourg.

Russia's western adviser seeks boost in financial aid

By John Lloyd in Moscow

THE Russian government's senior western economic adviser is pressing the future Clinton administration to champion a new multi-billion-dollar package of foreign aid for Russia to support a new attempt to stabilise the country's finances and prepare for an expected surge in unemployment levels in the coming year

Mr Jeffrey Sachs, the Harvard University economist who is working closely with the reform team under Mr Yegor Gaidar, acting prime minister, said yesterday that preliminary talks with the Clinton transition team indicated a willingness to grapple with what he described as "the most important foreign policy issue facing the US and the west."

Mr Sachs' proposals would total roughly the same as the $24bn package put forward in the summer by the Group of Seven industrial countries, which has so far had little effect on the crisis-ridden Russian financial structure. One cornerstone of that package, an IMF standby agreement, which should have been reached by the end of this year, has been indefinitely postponed.

The main points in Mr Sachs' package are:

● An emergency social fund to cover the vastly increased social spending from mass redundancies, and to fund pensions and health care. This would be set up by the G7 governments.

● An industrial restructuring fund to convert the military goods sector and re-equip obsolete but otherwise viable plants – to be administered by the main export credit guarantee agencies, the World Bank and the European Bank for Reconstruction and Development.

● A small business fund to supply capital and expertise to the growing private sector, to be administered by the EBRD.

● Measures, including debt rescheduling, a rouble stabilisation fund and a balance of payments support package, to be set up and administered by the IMF.

The plan takes much of the authority for the assistance away from the IMF, to which the G7 gave overall management of the $24bn package.

Mr Sachs, whose passionate advocacy has both irritated and spurred the IMF and G7 governments, believes the Fund has been part victim, part villain in a general foreign indifference to the looming problems of Russian reform.

Mr John Odling-Smee, director of the IMF's European II department and as such the senior executive on the IMF's Russian programme, argued recently in a recent article in the FT that Russia's economic stabilisation programme "is taking longer than expected because of the [Russian] authorities' inability so far to decide on firm monetary and fiscal policies."

Mr Sachs believes that lack of IMF/western decisiveness, especially in offering a $6bn fund to stabilise the rouble at the beginning of reforms in January, provoked the slide into higher and higher inflation and budgetary deficits.

He says that, of the $24bn package, only $1bn from the IMF and $600m industrial rehabilitation loan from the World Bank has been issued, and that could not be used in 1992. A further $8.5bn of bilateral credits have also been issued by various countries – but all of it short-term, at market interest rates, with $2.5bn interest already falling due in 1993 and with no hope of repayment.

"The essence of this process is that it is dynamic, and that you must be actively engaged – not sitting back and bemoaning lack of readiness of the Russian government." The provision of a stabilisation fund would completely alter the environment under which the reformers work."

● Russia's central bank chief has ruled out introducing a new Russian currency for the time being, Itar-Tass news agency said, Reuter reports from Moscow.

Central bank chairman Mr Viktor Gerashchenko was reacting at the weekend to calls by senior officials for a re-think about maintaining a single "rouble zone" because neighbouring states has already brought in their own currencies.

The rouble zone covers the majority of the 15 former Soviet republics which have retained the old currency.

But Ukraine and the three Baltic states have already abandoned the rouble, and others are considering following suit.

Vice-President Alexander Rutskoi said last month that those states which quit the rouble zone were forcing up Russian inflation by prompting a flood of unwanted roubles across their borders.

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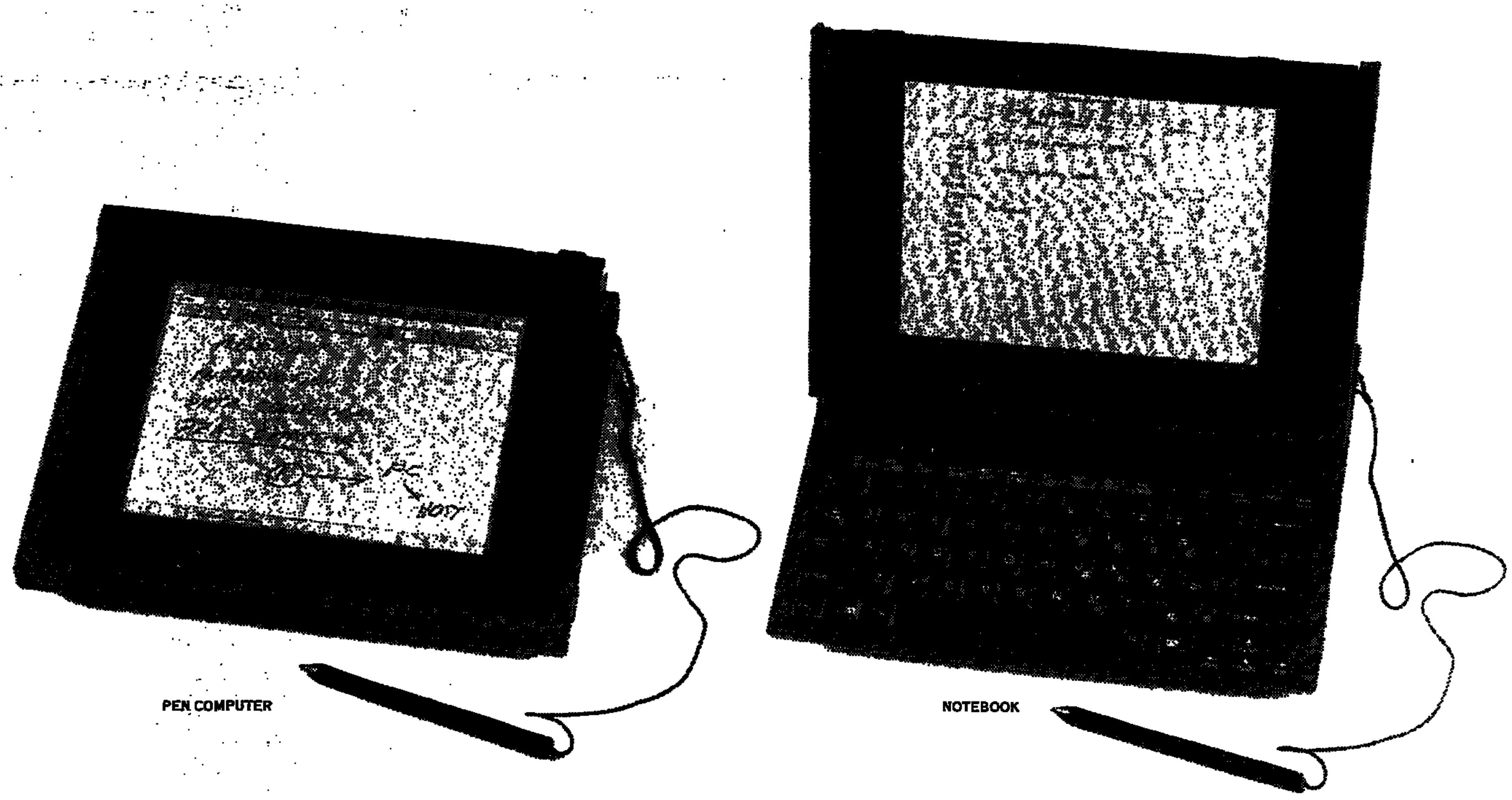

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Japan hints at rice ban compromise

By Charles Leadbeater in Tokyo

JAPAN WILL not allow its ban on rice imports to stand in the way of successful completion of the Uruguay Round of world trade talks, Mr Kiichi Miyazawa, *prime minister, made* clear this weekend.

"We must never spoil multinational trade talks," he said, after reshuffling his cabinet on Friday.

Mr Michio Watanabe, foreign minister, reinforced Mr Miyazawa's comments, saying: "Unless the government makes a decision on fundamental principles about the rice issue within this year or by early next year, the Round will not be completed successfully."

Mr Miyazawa's indication that he would be prepared for Japan to replace its ban on rice imports with a set of import tariffs marks an important change in the government's public approach to an issue which has become a central obstacle to completing the Gatt trade talks.

Until last week the government had insisted that it would not compromise on its demand that the rice ban be excluded from proposals made by Mr Arthur Dunkel, Gatt director general, that all import restrictions should be replaced by tariffs.

However, Mr Miyazawa's comments suggest he is seeking to capitalise on the political momentum of the reshuffle to swing policy towards a compromise. The move is likely to provoke a storm of protest from Japan's rice farmers who form an important part of the governing Liberal Democratic party's rural support.

Government officials indicated that a final decision on how to replace the ban with a set of tariffs would be taken by early in the new year. The focus will shift to whether the government can reach a compromise with the farmers over measures to offset the competition from imports.

It is thought likely that Japan will press for tariffs as high as 700 per cent and for them to be subsequently reduced more slowly than under the current Dunkel schedule.

Mr Miyazawa said the government would make sure farmers could continue to work in security, possibly by providing financial assistance to promote the rationalisation of agriculture to create larger more efficient farms.

Monitors warn on Kenyan election

By Michael Holman in Nairobi

COMMONWEALTH observers warned yesterday that Kenya's first multi-party elections since 1966, scheduled for December 29, were in jeopardy unless "irregularities" in last week's parliamentary nominations were resolved.

The warning follows Saturday's unprecedented walk-out by five western ambassadors from a national day parade presided over by President Daniel arap Moi. They said it had become a political rally on behalf of the governing Kanu party.

Allegations that opposition parties had been prevented from nominating candidates in as many as 45 parliamentary seats required urgent investigation, said the Commonwealth observer group in a statement.

Its assessment of the poll is critical. If it decides the elections are not "free and fair" most donors are likely to continue a freeze on aid imposed in November 1991. Unless "irregularities" in last week's nomination process were rectified by a special committee of the electoral commission due to meet today, this part of the election procedure would be considered "severely compromised", the statement said.

Thirteen parliamentary candidates representing the Kenya African National Union (Kanu), including Mr Moi, were unopposed when nominations for the 188 seat assembly closed on Thursday. Kanu is being challenged by three main parties – Ford Kenya, Ford Asili, and the Democratic party – in a campaign marked by ethnic rivalries and occasional violence.

The statement, approved in London by Chief Emeka Anyaoku, the Commonwealth secretary-general, also expressed "deep concern" about allegations of "violence, misconduct and intimidation, apart from general impropriety on the part of officials". The elections "may now be at risk", the statement said.

Saturday saw five western ambassadors, including the US envoy, snub Mr Moi when they walked out of the stadium holding a parade marking Kenya's 29th anniversary of independence. Groups holding banners and placards extolling the virtues of Mr Moi and Kanu were paraded before spectators. A US spokesman said the occasion had been turned into "a party rally".

Envoys from the US, Germany, Sweden, Denmark and Canada left shortly before President Moi addressed the rally. Sir Kieran Prendergast, the British high commissioner, stayed in his seat.

US Marines seize vital Somali airstrip

But confusion grows about the tactics and objectives of the United Nations relief mission, reports **Julian Ozanne** from Mogadishu

US MARINES in 12 helicopter gun ships yesterday seized a vital airstrip in the starvation-ridden interior of Somalia, as the foreign intervention in the country continued to build up.

However, with at least 36,000 troops due in Somalia by Christmas, confusion has begun to set in about the tactics and objectives of the operation, which has a United Nations mandate to provide security for relief efforts.

Yesterday morning, a rifle company of 220 Marines, flying from Mogadishu in their first foray into the interior, landed and secured the former air *force base at Bali Dogle*, 160km west of the capital. The Marines will pave the way for the imminent arrival of the 10,000-strong US Army 10th Mountain division.

In the capital, military officials said at least 3,500 US troops and 300 French paratroopers and 120 Belgian soldiers had already landed by last night to form the advance forces of the biggest military-humanitarian intervention ever undertaken in black Africa.

At the port, the Marines have offloaded 320 vehicles, including 7 M1-A1 Abrams tanks and several armoured personnel carriers, from a huge supply ship, as part of the fleet which will penetrate further into the interior.

However, there is some confusion among the foreign troops who have secured Mogadishu's port and airport and provided increased security in the anarchic city, over whether they should be disarming the city's residents.

At first, US commanders gave orders for all weapons to be confiscated. Later, only heavy weaponry and machine-guns used in an aggressive or threatening way near checkpoints were ordered to be taken. Guns, which had disappeared from vehicles and pedestrians after the US marines arrived last week, are gradually re-appearing as bandit attacks continue unabated.

Tension was also mounting between French and US officers yesterday. The paratroopers from the French Foreign Legion have long experience of patrolling Africa's most violent streets and are anxious to be moved rapidly into the interior. But they have put themselves under a US military command which appears to be taking no chances and is refusing to heed the pleas of aid workers that they move rapidly into the towns of Kismayo and Baidoa, which have been plagued by looting.

US troops are expected to move to Baidoa in an armoured convoy by the weekend. Baidoa is the critical staging point for the relief effort to the cut-off interior.

However, aid workers continued to criticise the slow US penetration of the interior, where there are at least 300 deaths a day and up to 2m Somalis are in desperate need of food, medicine, seeds and tools. "The operation is too military and too little humanitarian so far," said an official with Médicins Sans Frontières.

Foreign troops in Mogadishu have met little opposition from the freelance gunmen and bandits who have terrorised civilians for two years. On Saturday, however, Cobra combat helicopters fired anti-tank weapons at three Somali battle wagons they said fired upon their aircraft, killing up to eight people and injuring several. The wreckage of one burnt-out vehicle lay abandoned yesterday and residents living near the scene of the incident said the three destroyed vehicles, including a US-made M1-13 APC, had been fighting a rival clan for control of a former military camp when the US helicopters flew overhead on a routine patrol. US officials said they hoped the incident would set an example.

A UN World Food Programme ship carrying 3,000 tonnes of bagged wheat docked at Mogadishu port yesterday, the first aid ship into the city since October 24. US Marines also escorted a food convoy of 20 tonnes of rice, beans and vegetable oil through south Mogadishu in the second day of US military-NGO co-operation.

Somali men queue at the main gate of Mogadishu's port in the hope of securing work unloading relief aid

Mogadishu's main water supply plant was switched on yesterday – after a three-month shutdown – under a United Nations deal that will give Somali gunmen who were guarding it on-the-job training as plumbers and mechanics, Reuter reports from Afgoi, Somalia.

Supplies will start reaching the capital in about 48 hours, where priority will be given to hospitals, feeding centres for refugees and public standpipes until fuller service is restored, said Mr Peter Schumann, representative of the United Nations Development Programme.

Mr Schumann spent eight weeks negotiating a deal to reopen the plant, which in essence involved convincing gunmen demanding a dollar ransom for not looting it to accept on-the-job training instead.

Hundreds die in Indonesia quake

By William Keeling in Jakarta

AT least 1,200 died at the weekend when an earthquake measuring 6.8 on the Richter scale struck the island of Flores in eastern Indonesia.

Local government officials have appealed for emergency food and medical supplies amid reports that thousands have been made homeless.

The earthquake, which occurred at midday local time on Saturday, had its epicentre *30km north of Flores, creating* a tidal wave reportedly 80 feet high.

The wave devastated the coastal town of Maumere, killing more than 1,000 people and badly damaging at least a third of its buildings. The town has a population of 70,000, and local government officials say the death toll there is certain to rise as rescue work continues.

Two ships carrying emergency supplies have already been sent from the neighbouring island of Timor, but the port and airport at Maumere were reportedly damaged by the earthquake, and this is hampering relief efforts.

With the rainy season at its height, officials are concerned that disease may spread rapidly.

The full extent of the disaster may take several days to emerge as relief teams struggle to visit the plethora of smaller islands nearby.

Flores, with a 1.5m population, lies at the meeting point of two continental shelves, as do many of Indonesia's 13,000 islands, and has a turbulent volcanic past. It has more than a dozen active volcanoes.

In recent years, the island has become popular with tourists, largely because of its rugged volcanic landscape and crater lakes. There were no reports of foreigners being killed, although Maumere is a main port of entry for travellers visiting Flores.

The earthquake is certain to revive environmentalists' opposition to plans to construct a dozen nuclear power stations on the main island of Java, which lies on the same geographical fault line as Flores.

Khmer Rouge raise stakes

KHMER ROUGE guerrillas have fired artillery shells at UN peacekeepers in Cambodia, marking a further deterioration in relations between the two, Reuter reports.

"Two shells landed 75m in front of our tent and one 30m behind," said Mr Nikolay Nikolaev, a UN election-team supervisor for the Santuk district in central Kompong Thom province.

"The shells were directly aimed at the tent," he said over the weekend, adding that he believed it was the first time UN personnel had been the deliberate target of such an attack.

The shelling occurred in Krayea, 120km north of Phnom Penh, the capital, on December 6 and was ordered by the commander of the Khmer Rouge's 802 Regiment, Mr Nikolaev said. No UN personnel had been injured.

The following day, the local Khmer Rouge commander handed a letter to Indonesian UN soldiers ordering the UN to leave Krayea. The letter said: "Untac [UN Transitional Authority in Cambodia] are not eligible to stay in Krayea commune unless you get permission from the representative of the National Unity Party of Cambodia," referring to the name of the Khmer Rouge's latest political party, led by Mr Khieu Samphan, nominal head of the guerrilla faction.

Citing security concerns, Mr Nikolaev withdrew the electoral team, but only after most of the people of the commune had been registered to vote in a UN-supervised national election scheduled for next May.

Mr Nikolaev said Lt-Gen John Sanderson, military commander of Untac, had ordered a squad of Indonesian paratroopers to remain in the commune despite the threats.

Khmer Rouge guerrillas have also begun harassing Cambodians who have been registered by the UN for next year's election, UN officials said.

Hussein is free of cancer, say doctors

By James Whittington in Amman

KING HUSSEIN of Jordan was confirmed as being free from cancer over the weekend, by doctors at the Mayo Clinic in Rochester, Minnesota.

A statement issued from the clinic by the king's personal physician said post-operative tests had "confirmed the complete success of surgery" last August and doctors had found "no abnormalities". The king will have regular check-ups.

Speculation that King Hussein was still suffering from cancer, despite the surgery, had been rife in Jordan and the foreign press since a speech he made to the nation on 5 November which many people interpreted as an admission that cancer might take his life.

"One recognises that every living soul will meet its destined end," he said. "When the time comes no hour could be postponed or brought forward."

The king left the hospital ahead of schedule and is due to spend a few days in Washington, before returning to Jordan.

INTERNATIONAL ECONOMIC INDICATORS: EUROPEAN COMMUNITY CONVERGENCE

This table gives yearly averages of the economic series most relevant to convergence for Emu. It covers all EC countries except Luxembourg, which is in a monetary union with Belgium, plus an average for the EC as a whole. All figures are percentages.

	GERMANY					FRANCE					ITALY				
	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP
1981	6.3	10.4	3.9	−3.6	n.a.	13.4	16.3	7.3	−1.9	n.a.	17.8	19.8	7.3	−11.4	n.a.
1982	5.3	9.0	5.6	−3.2	n.a.	11.8	16.0	8.0	−2.8	n.a.	16.5	20.7	8.0	−11.3	n.a.
1983	3.3	7.9	6.9	−2.5	40.9	9.6	14.4	8.2	−3.2	n.a.	14.7	18.5	8.7	−10.6	72.0
1984	2.4	7.8	7.1	−1.9	41.6	7.3	13.4	9.7	−2.8	43.8	10.8	15.2	9.3	−11.6	75.1
1985	2.2	6.9	7.1	−0.9	42.3	5.9	11.9	10.1	−2.9	45.5	9.2	13.3	9.6	−12.5	82.0
1986	−0.1	5.9	6.5	−1.3	42.4	2.7	9.1	10.3	−2.7	45.7	5.8	10.9	10.5	−11.7	86.5
1987	0.2	5.8	6.3	−1.8	43.5	3.1	10.2	10.4	−1.9	47.3	4.7	10.8	10.3	−11.0	90.9
1988	1.3	6.1	6.3	−2.1	44.1	2.7	9.2	9.9	−1.8	47.2	5.1	10.8	10.8	−10.9	93.3
1989	2.8	7.0	5.6	+0.2	43.0	3.6	9.2	9.4	−1.2	47.4	6.2	12.0	10.6	−9.9	96.0
1990	2.7	8.9	4.8	−1.9	43.6	3.4	10.4	9.0	−1.6	46.6	6.5	12.2	9.9	−11.0	98.6
1991	3.5	8.6	5.0	−2.9	46.2	3.2	9.5	9.5	−1.7	47.2	6.4	11.6	10.2	−10.2	101.2
1992	4.1	8.1	6.0	−3.2	44.3	2.9	9.1	10.0	−2.0	47.5	5.3	12.2	10.4	−9.8	103.9

	UNITED KINGDOM					SPAIN					NETHERLANDS				
	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP
1981	11.9	14.7	8.8	−2.6	n.a.	14.6	15.8	14.4	−3.9	n.a.	6.7	11.5	7.3	−5.5	n.a.
1982	8.6	12.9	10.2	−2.5	n.a.	14.4	16.0	16.3	−5.6	n.a.	5.7	9.9	9.8	−7.1	n.a.
1983	4.6	10.8	11.0	−3.3	59.1	12.2	16.9	17.8	−4.7	36.3	2.7	8.2	12.4	−6.4	62.0
1984	5.0	10.7	11.0	−4.0	60.3	11.2	16.5	20.6	−5.4	39.4	3.2	8.1	12.3	−6.3	66.1
1985	6.1	10.6	11.4	−2.8	58.9	7.8	13.4	21.6	−6.9	45.2	2.6	7.3	10.5	−4.8	69.7
1986	3.4	9.9	11.4	−2.4	57.7	8.8	11.4	21.0	−6.0	48.2	0.2	6.4	10.3	−6.0	71.6
1987	4.1	9.5	10.4	−1.3	55.7	5.3	12.8	20.4	−3.2	48.8	−0.4	6.4	10.0	−6.6	75.4
1988	4.9	9.4	8.5	+1.1	50.5	4.8	11.7	19.3	−3.3	42.9	0.9	6.1	9.3	−5.2	77.7
1989	7.8	9.6	7.1	+1.2	45.1	6.8	13.7	17.1	−2.8	44.2	1.1	7.2	8.4	−5.2	77.9
1990	9.5	11.1	7.0	−0.8	42.6	6.7	14.7	16.1	−4.0	44.5	2.4	9.0	7.5	−5.3	78.3
1991	5.9	9.9	9.1	−2.0	43.8	6.0	12.4	16.3	−4.4	45.6	4.0	8.9	7.0	−3.9	78.4
1992	3.9	9.2	10.7	−5.0	45.6	6.1	12.0	17.3	−4.2	48.4	3.9	8.3	6.5	−4.0	79.5

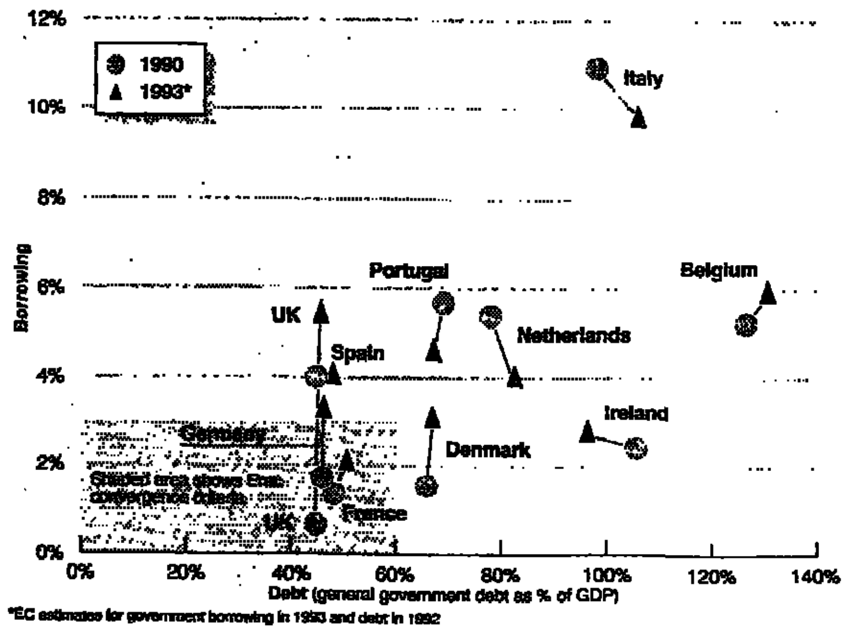
	BELGIUM					PORTUGAL					DENMARK				
	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP
1981	7.6	13.8	9.5	−12.8	n.a.	19.9	19.1	8.5	−9.3	n.a.	11.7	19.2	7.6	−6.9	n.a.
1982	8.7	13.4	11.2	−11.0	n.a.	22.4	22.3	7.6	−10.4	n.a.	10.1	20.8	9.0	−9.1	n.a.
1983	7.7	11.8	12.5	−11.3	107.0	25.5	26.5	8.1	−9.0	n.a.	6.9	14.3	9.2	−7.2	74.3
1984	6.4	12.0	12.5	−9.0	112.6	29.3	27.5	8.7	−12.0	62.4	6.3	13.9	8.7	−4.1	79.8
1985	4.9	10.6	11.6	−8.5	119.8	19.3	25.4	8.8	−10.1	70.9	4.7	11.2	7.2	−2.0	76.6
1986	1.3	7.9	11.6	−9.1	124.0	11.7	17.9	8.3	−7.2	69.5	3.7	10.0	5.5	+3.4	69.0
1987	1.6	7.8	11.4	−7.1	131.0	9.4	15.4	6.9	−6.8	72.9	4.0	11.3	5.6	+2.4	65.8
1988	1.2	7.8	10.0	−6.9	132.4	9.6	13.9	5.7	−5.4	75.2	4.5	9.8	6.4	+0.5	66.1
1989	3.1	8.6	8.6	−6.5	128.4	12.7	14.8	5.0	−3.4	72.0	4.8	9.9	7.7	−0.5	65.6
1990	3.4	10.1	7.8	−5.3	127.3	13.2	15.2	4.6	−5.8	68.2	2.6	10.7	8.1	−1.4	66.4
1991	3.2	9.2	8.3	−6.2	129.4	10.9	14.3	4.0	−6.4	64.7	2.4	9.2	8.9	−2.0	64.7
1992	2.5	8.8	8.1	−6.0	129.6	9.1	11.8	4.5	−5.5	66.7	2.2	8.9	9.5	−2.0	65.8

	GREECE					IRELAND					EUROPEAN COMMUNITY				
	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP	Inflation	Long-term Interest Rate	Unemployment Rate	Govt Balance as % GDP	Debt as % GDP
1981	24.5	17.7	4.1	−11.0	n.a.	20.4	17.2	10.8	−13.4	n.a.	12.1	15.1	7.8	−5.3	n.a.
1982	20.9	15.5	5.8	−7.7	n.a.	17.2	17.1	12.4	−13.8	n.a.	10.7	14.3	8.9	−5.5	n.a.
1983	20.2	18.2	7.9	−8.3	44.3	10.5	13.9	15.2	−11.8	97.4	8.4	12.7	9.9	−5.3	n.a.
1984	18.4	18.5	8.1	−10.0	53.2	8.6	14.6	16.8	−9.8	104.8	7.2	11.8	10.6	−5.3	56.6
1985	19.3	15.8	7.7	−13.8	62.5	5.4	12.7	18.2	−11.2	108.5	6.1	10.9	10.8	−5.2	59.1
1986	23.0	17.5	7.4	−12.6	65.2	3.8	11.1	18.2	−11.2	122.0	3.5	9.2	10.7	−4.8	60.0
1987	16.4	16.6	7.4	−12.2	73.2	3.1	11.3	18.0	−9.1	120.4	3.2	9.4	10.3	−4.2	61.5
1988	13.5	n.a.	7.6	−14.4	80.4	2.2	9.5	17.3	−5.2	110.1	3.6	9.4	9.8	−3.7	61.0
1989	13.7	n.a.	7.5	−18.3	85.6	4.1	8.9	15.7	−2.2	104.7	5.1	9.9	8.9	−2.8	60.3
1990	20.4	n.a.	7.2	−19.8	93.7	3.3	10.1	14.5	−2.5	103.0	5.6	11.1	8.3	−4.0	60.3
1991	19.5	n.a.	7.7	−16.5	96.4	3.1	9.2	16.2	−2.3	102.8	5.5	10.4	8.8	−4.4	61.8
1992	16.2	n.a.	n.a.	−13.2	99.0	3.4	8.9	17.7	−2.5	100.4	4.4	9.7	9.4	−5.0	63.4

German figures for 1991 and 1992 refer to unified Germany. Previous years refer to West Germany only. **Inflation:** annual percentage growth in consumer prices. **Interest rates:** nominal long-term government bond yields. **Unemployment rate:** percentage of the civilian labour force. **Government balance:** the net lending (+) or net borrowing (−) of general government as a percentage of GDP. **Debt:** the gross debt of general government as a percentage of GDP. 1992 Figures for inflation, bond yields and unemployment are averages over year to date (Generally Jan-Oct). Figures for the Government balance and Debt are European Commission forecasts. Source: European Commission.

Fiscal positions and the Maastricht criteria

General government borrowing as % of GDP



*EC estimates for government borrowing in 1993 and debt in 1992

The road from Edinburgh to Emu still looks bumpy

THE Edinburgh summit will be hailed as a triumph. But euphoria should be contained. The journey to economic and monetary union may have not been abandoned, but the road ahead will be bumpy.

The past three months have demonstrated how bumpy it can be. When the FT last published a table on convergence, on December 9, 1991, many thought that the ERM, which had operated without a significant realignment for almost five years, offered a smooth road to Emu. Things look rather different after the exit of the Italian lira and pound sterling and the realignments of the Spanish peseta and Portuguese escudo. Whether the French franc retains its parity with the ERM is likely to prove more important for Emu than anything agreed by the 12 leaders of the European Community over the weekend.

It is the Bundesbank's determination to preserve the value of the D-Mark, despite German unification, that has so shaken the ERM. But the Bundesbank is not *engaged in a quixotic tilt at inflationary* windmills. Its goals are shared by many Germans, as was demonstrated by the terms on which the Bundestag ratified the Maastricht Treaty earlier this month. By insisting that they be given another chance to examine Emu before signing away the D-Mark, German politicians have warned others of their opposition to any watering down of the convergence criteria.

The criteria in the Maastricht Treaty were that a country shall possess:

■ "an average nominal long-term interest rate that does not exceed by more than 2 percentage points that of, at most, the three best performing member states in terms of price stability"; and

■ an average rate of inflation "that does not exceed by more than 1½ percentage points that of, at most, the three best performing member states";

■ a currency that "shall have respected the normal fluctuation margins provided for by the exchange rate mechanism of the EMS without severe tensions for at least the last two years before the examination";

■ a sustainable government financial position. This is defined, first, by "whether the ratio of the planned or actual government deficit to gross domestic product exceeds" 3 per cent, "unless either the ratio has declined substantially and continuously and reached a level that comes close to" 3 per cent or "the excess ... is only exceptional and temporary", and, second, by "whether the ratio of government debt to GDP exceeds" 60 per cent, "unless the ratio is sufficiently diminishing and approaching" 60 per cent "at a satisfactory pace."

What, if any, progress has the EC been making towards this convergence aim?

Eight countries meet the interest rate criterion, the same countries also meeting the inflation criterion. The countries with the best inflation performance in 1992 were Belgium, Denmark and France.

Only seven countries – the minimum number for Emu in 1997 – meet the ERM criterion. But who knows how many more realignments may be forced on the ERM? Only France, Denmark and Luxembourg are forecast to meet the government borrowing criterion next year (see chart). As for the target for government debt, it is currently met by only five countries.

In sum, Luxembourg and France alone would pass all the tests for Emu. But Germany and, intriguingly, Denmark are close enough to make the grade. Thus, half the countries eligible for Emu do not want to join and one of the other two, Luxembourg, is already in a currency union.

Ireland still fails on public debt; the UK now succeeds on inflation, but fails on the fiscal deficit and ERM membership; Belgium and the Netherlands fail on both aspects of fiscal policy; Spain fails on everything, apart from the public debt ratio; and Greece, Italy, and Portugal fail on everything.

The economic significance of these criteria must not be exaggerated. They are not logically necessary for a successful Emu. But Emu is a political project. If German politicians want to be difficult, it looks as though they will have plenty of excuses.

Martin Wolf

Government plans domestic policy initiative

By Philip Stephens and Peter Norman

THE government is to launch a New Year drive to regain its grip on the domestic political agenda after its pre-occupation in recent months with economic crisis-management and the battles over Europe.

Senior ministers are planning a series of initiatives to demonstrate that the recent political turmoil has not dented the government's determination to meet the policy objectives set out in its April election manifesto.

Among the initiatives will be measures to restructure and expand education and training opportunities for 16-to-19 year-olds, intensified co-operation with business through the development of an industrial strategy and significant reforms of the police and of the treatment of juvenile offenders.

Plans for the policy launches reflect growing if still cautious confidence among ministers that the signs of economic recovery have lifted the state of siege imposed on the government by sterling's exit from the European exchange rate mechanism in September.

Mr Norman Lamont, the chancellor, said yesterday he was now "hopeful" that the combination of a sharp drop in interest rates, the fall in the value of the pound and the recovery measures in the Autumn Statement was beginning to yield results. He said that businessment were now sounding more optimistic as Britain had positioned itself in a way which held out better prospects for growth.

Other ministers said yesterday the successful outcome of this weekend's Edinburgh summit would also support Mr Major's efforts to rebuild his authority after the disasters of the past few months.

The prime minister was conscious, however, that the government needed to dispel the impression of drift in domestic policymaking. He was determined that the central themes of the election manifesto – opportunity, choice and responsibility – were fully reflected in Whitehall decision-making.

Two the the key elements in the New Year package will be a restructuring of the training and technical education available to teenagers. The departments of education and employment are to co-ordinate a rapid expansion of further education places and the extension of training vouchers and vocational qualifications.

UK will not publish first half figures

By Emma Tucker

THERE will be no comprehensive trade figures published for the UK in the first half of next year, as a result of changes to the single European market. Figures will not be available for UK trade with the rest of the EC, accounting for more than 50 per cent of the total.

The blackout comes at a sensitive time for the economy, as the effects of sterling's devaluation begin to work through.

Analysts expressed concern over the effects on sterling. "The more worried overseas investors become in the absence of these vital statistics, the lower the pound will tend to settle," said Mr Peter Spencer, chief economist at Kleinwort Benson.

A new EC-wide system, Intrastat – is to be adopted by each of the 12 member states next month. Based on sales tax returns, it will replace the old method of collecting trade data based on customs declarations. Other EC members also expect a delay in the publication of intra-EC trade figures, but the UK is the only one to have decided on a formal six months gap.

Economics Notebook, Page 19

The British are coming: French producers and retailers are preparing for increased demand from UK shoppers buying wine

Retailers fear EC exodus

Philip Rawstorne assesses the duty-free threat

BRITAIN's drink and tobacco retailers fear the European single market next month will start a cross-Channel shopping boom that will severly damage their businesses.

Though present duty-free allowances will remain in force, limits on the amounts of beer, wine, spirits and cigarettes travellers can bring back from continental hypermarkets for personal consumption will be abolished on January 1.

Lower duties and taxes levied on goods in France and other EC countries are expected to tempt more UK shoppers across the Channel.

Mr Peter Lewis, director of the Wines and Spirits Association, says: "Some small traders may be forced out of business before the government realises it is losing an unacceptable amount of revenue."

The threat of large-scale commercial smuggling as Customs formalities are withdrawn from Channel ports is also worrying retailers in England.

Even under the present restrictions on personal duty-paid imports – 1.5 litres of spirits, 50 litres of beer, and five litres of wine – it is estimated overseas liquor purchases total £350m a year.

Next year, each adult will be allowed to bring in up to 10 litres of spirits, 90 litres of wine, 110 litres of beer, 200 cigars and 800 cigarettes for personal use.

Anyone bringing above those amounts into the country must prove they are for personal use – but a family wedding, say, would be an acceptable reason for exceeding the levels.

The changes will offer cross-Channel shoppers some tempting bargains in spite of the recent sterling devaluation. A couple bringing back their full liquor allowance would save £350 in tax after paying for the ferry crossing and a good meal in Boulogne, according to the Brewers' Society.

Some comparisons of retail prices suggest the savings could be much higher. In France a bottle of Morgon Beaujolais is little more than half the UK price; and a packet of 20 cigarettes costs £1 less.

Customs officials, however, believe few travellers will have the money to buy in bulk or the space in their cars and caravans for more than a fraction of the allowance.

The Treasury, which last year collected more than £11bn in duty on liquor and tobacco, forecasts losses of about £250m in excise revenue from cross-Channel buying next year.

The brewing industry predicts the loss of revenue will be considerably higher. The Brewers' Society calculates that £100m will be lost on beer imports alone.

Nor do events on other borders between high-tax and low-tax countries lend support to a sanguine view of prospects. Denmark's consumers buy 13 per cent of their beer across the border in Germany; Canadian customers account for 25 per cent of the turnover of US drinks retailers in border areas.

Denmark had already begun to reduce its drinks taxes to narrow the differential with Germany, but the UK government had rejected calls to peg or cut duty.

These worries about the impact of legal cross-Channel trade are compounded by the threat of a growth in smuggling, especially of cigarettes.

Germany already has problems with smuggling from Poland. One in nine packets of cigarettes consumed in Canada, where a carton costs C$35 more than in the US, is contraband. The illegal market is worth C$1.4bn a year.

The UK tobacco industry has warned that the removal of Customs' checks at the ports could open the doors to similar large-scale smuggling across the Channel.

Nissan forms links with component suppliers

By Chris Tighe

NISSAN, the Japanese carmaker, is strengthening its influence over the quality, cost and delivery time of components it purchases for its north of England plant by forging links with its suppliers.

In a pilot project, Nissan has trained its suppliers' purchasing staff in its "partnership philosophy", so they can help their own suppliers cut costs.

The initiative has led to Nissan personnel visiting second-tier suppliers to work with them on improving assembly line organisation.

"We've developed a partnership philosophy with our first tier suppliers; the intention is to develop that down through the sub-suppliers," said Mr Bob Gray, purchasing manager at the company's Sunderland plant which will next year make 270,000 Primeras and Micras.

A report last month by Cardiff Business School, Cambridge University and Andersen Consulting highlighted an alarming productivity and quality gap between UK and Japanese automotive components suppliers. Many European suppliers, says Mr Gray, are not at present cost competitive with the Japanese.

Nissan operates an "open book" system with suppliers, analysing their costs and production methods and agreeing, says Mr Gray, a "fair and realistic" profit.

It floated the idea of its second tier supplier experiment earlier this year among nearly all its 195 European suppliers.

Britain in brief

Tube scheme delayed by funding split

London Transport has dropped plans to announce a go-ahead for the long-awaited Jubilee Line extension to London's Docklands today because there is still no sign of an agreement with the private sector over the funding of the £1.8bn scheme.

One London Transport source said negotiations over the private sector contribution were "completely and utterly bogged down in detail" and there was no longer any hope of an agreement this year.

MPs seek Maxwell details

A committee of MPs will this week step up efforts to help pensioners hit by the collapse of the Maxwell empire and is expected to express concern at the cost of unravelling the complex web of deals involving pension funds' money.

More pressure on banks and individuals who benefited from transactions with Mr Robert Maxwell in the last months before his death to is set to increase as the cross-party social security committee decides tomorrow who it wants to give evidence next year.

CBI urges watchdog

The Confederation for British Industry is calling for a single regulator to supervise occupational pension schemes, in its response to the government's Pension Law Review Committee chaired by Professor Roy Goode.

In a report to be published today, the CBI says that the key to the future security of occupational pension schemes lies in effective regulation and supervision. The CBI shares the view of the Prudential, the UK's largest life company, that this requires a single body responsible for supervision.

The Goode committee was set up in the wake of the frauds at pension schemes associated with the late Mr Robert Maxwell.

Concern at mortgage plan

The government said it was concerned about a planned change in mortgage indemnity insurance that would make it difficult for owners of private flats in a local authority blocks to sell their properties.

The main mortgage indemnity insurers are negotiating with lenders to tighten policies so that societies will normally be unable to get insurance for mortgages on former council flats which are in blocks above seven storeys in height.

The Department of the Environment said it was worried about the seven storey clause, put to lenders in a contract drawn up by four insurance companies.

Rover to raise car prices

Rover is to raise its new car prices by an average of 2.9 per cent across the range from December 21.

The move by Rover to raise prices follows Ford's announcement earlier this week that it would increase the prices of its UK-built Fiesta and Escort/Orion cars by an average of 4.5 per cent. Ford, along with other car makers that have recently raised prices such as Vauxhall and Volkswagen, have blamed the increase largely on the impact of the recent devaluation of sterling.

Tags shelved

The government has shelved plans to introduce electronic tagging for offenders who are subject to curfew orders. Mr Michael Jack, Home Office minister, said that spending constraints meant the scheme could not proceed.

THE WEEK AHEAD

ECONOMICS

Hints on UK recovery prospects

THE LAST rush of UK figures for this year will provide further hints on whether the economy is emerging from recession.

Another rise in the retail sales figures – out on Wednesday – would add to evidence that a recovery in consumer spending is underway. Expectations are for a 0.2 per cent increase on the month.

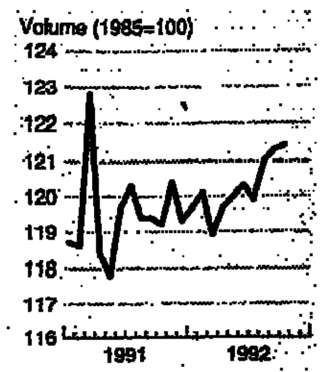
The bad news will come with the unemployment figures on Thursday. Economists are forecasting another big month on month rise.

Most economists do not expect unemployment to stop rising until at least the end of next year. The very pessimistic do not see it peaking until 1996.

Thursday's unemployment figures will include the latest quarterly labour force survey which measures unemployment through a household survey rather than by adding up the total number of people claiming benefit – the method used to provide the monthly figures. Many argue that the labour force survey gives a more accurate picture of the jobless total.

Other economic events this week follow. The figures in brackets are the median of economists forecasts from MMS International, a financial information company:

UK retail sales index



Source: Datastream

Today: Spain, November consumer price index; France, November CPI (up 0.2 per cent on month, up 2.3 per cent on year); Japan, November trade balance ($7.7bn surplus), November wholesale price index (flat on month, down 1.3 per cent on year); US, Q3 manufacturing final report, President elect Bill Clinton holds economic summit lasting two days in Arkansas; Belgium, EC finance ministerial meeting in Brussels.

Tomorrow: UK, November CBI distributive trades survey released, November producer prices indices – output (up 0.2 per cent on month, up 3.2 per cent on year), excluding food, drink and tobacco (up 2.4 per cent on year), input (up 1.2 per cent on month, up 3.1 per cent on year), October industrial production (down 0.1 per cent on year), October manufacturing output (down 0.1 per cent on month, up 0.3 per cent on year); Japan, October machine orders; US, October business inventories (flat), Q3 current account, Johnson Redbook December 12, auto sales Dec 1-10 (6.2m), truck sales December 1-10; Canada, October manufacturing unfilled orders (down 0.1 per cent on month).

Wednesday: UK, November public sector borrowing requirement (£2.5bn), November retail sales (up 0.2 per cent on month, up 1 per cent on year); US, November housing starts (1.25m), November building permits, November industrial production (up 0.6 per cent), November capacity utilisation (78.9 per cent); Canada, November department store sales (up 1.5 per cent on year); Australia, October housing finance (up 3 per cent); Japan, October industrial production, EC commissioners visit Japan for trade talks, lasting two days.

Thursday: UK, November unemployment (up 35,000), October average earnings (up 5.5 per cent on year), October unit wage costs (up 0.8 per cent on year), quarterly labour force survey; US, October merchandise trade (-$8.1bn), October merchandise exports ($37.6bn), imports ($46.0bn), December Philadelphia Fed Index, money supply data for week ended December 7, initial claims for week ended December 7 (345,000), state benefits for week ended November 28; Canada, October merchandise exports (up 1 per cent on month), imports (flat on month), October merchandise trade surplus (C$600m), October wage settlement increases (up 2.7 per cent); Australia, October export prices.

Friday: UK, November building society net new commitments, December CBI industrial trends survey, November M4 (up 0.4 per cent on month, up 5.4 per cent on year), Q3 balance of payments (£2.9bn deficit); France, October industrial production (down 0.2 per cent); Germany, final Maastricht ratification.

During the week: Germany, October capital account, October long-term capital account, November wholesale price index (flat), November PPI west (flat on month, up 0.6 per cent on year); Italy, November hourly earnings (up 4.1 per cent), October PPI (up 2.3 per cent on the year).

Emma Tucker

RESULTS DUE

ASDA, the grocery chain, announces its interim results on Friday and is forecast to increase pre-tax profits from £10.1m to between £30m and £40m, with most estimates around the £35m mark.

Analysts expect the improvement to be due to the reduction in debt and increase in interest receivable thanks to Asda's £350m rights issue last year, rather than an improvement in trading. The operating profit is expected to be little changed. The considerable efforts of the new management team led by Mr Archie Norman will take a while longer to pay off.

H P Bulmer Holdings, the premium cider and drinks group, is set on Wednesday for a 20 per cent jump in pre-tax profits in the six months to October 31. Analysts put interim profits at about £10.7m compared with £9.07m last year, with the dividend likely to be increased 10 per cent to 3.8p (3.45p).

Devenish, the west country pub retailer, is expected to report a 16 per cent rise in full year pre-tax profits to £13.3m on Thursday. Pubs suffered from poor tourist trade in the first half but the second half has been helped by acquisitions.

Tiphook, the trailer and container rental group, is expected to report today a decline in interim pre-tax profits to around £35m from £39.2m. Slower economies across Europe have taken their toll. However, the group is likely to lift its dividend by about 10 per cent from 4.4p a share a year earlier.

Southern Electric is reporting its delayed interim figures tomorrow. It had postponed them until after its chairman had testified to the House of Commons on coal. Its pre-tax profits are likely to rise by about 30 per cent to around £18m.

Daily Mail and General Trust should unveil on Wednesday a modest increase in full year profits to around £50m from £47.7m. Advertising markets have been weak, particularly for the Evening Standard's classified jobs.

Friday: Electronic Data Processing, the computer services supplier, is expected to report today full year profits of about £4.8m, up only modestly from £4.1m a year earlier.

Ferranti International, the electronics group brought to its knees by its disastrous acquisition of ISC in the US, reports interim results tomorrow.

UK COMPANIES

■ TODAY
COMPANY MEETINGS.
New Frontiers Dev. Trust, Tallow Chandlers' Hall, 4, Dowgate Hill, E.C., 12.00
VTR, 66, Wilson Street, E.C., 12.00
BOARD MEETINGS:
Finals:
Electronic Data Process
Polar
Richards
Interims:
Berkeley Group
British Bio-Technology
Pelican
Tiphook

■ TOMORROW
COMPANY MEETINGS:
Benchmark Group, Berners Park Plaza Hotel, 10, Berners Street, W., 10.00
Drayton Asia Trust, 11, Devonshire Square, E.C., 11.00
Glasgow Income Trust, Glasgow Art Club, 185, Bath Street, Glasgow, 7.00
Keystone Inv., 33, King William Street, E.C., 11.00
Scottish National Trust, Charles Oakley House, 125, West Regent Street, Glasgow, 12.00
Wellcome, Queen Elizabeth II Conference Centre, Broad Sanctuary, S.W., 11.00
BOARD MEETINGS:
Finals:
Hardys & Hansons
Hoskyns
Lovell (Y.J.)
Midlands Radio
Sanderson Electronic
Interims:
Abtrust New Dawn Inv.
Bilkby
Brasway
Courts Furnishers
Creightons Naturally
Ferranti Intl.
Hafoss
Southern Electric
Southern Water
Triplex Lloyd

■ WEDNESDAY DECEMBER 16
COMPANY MEETINGS:
Amber Day, Savoy Hotel, Strand, W.C., 11.00
Chemex Intl., St. Johns Innovation Centre, Cowley Road, Cambridge, 9.30
Leveraged Opportunity Trust, 11, Devonshire Square, E.C., 10.30
Low (Wm), Baird Avenue, Dundee, 12.00
Town Centre Securities, Merrion Centre, Leeds, 2.30
BOARD MEETINGS:
Finals:
Alvis
Baggeridge Brick
Cheerwing
Daily Mail & Gen. Tst.
Group Development Cap.
Haemocell
Interims:
Bristol Water
Northern Electric
Seeboard
Wentworth Intl.

■ THURSDAY DECEMBER 17
COMPANY MEETINGS:
Bett Brothers, 9, Cox Street, Dundee, 12.00
British Assets Trust, 1, Charlotte Square, Edinburgh, 12.30
Govett Strategic Inv. Trust, Shackleton House, 4, Battle Bridge Lane, S.E., 11.30
Majedie Invs., Guild House, 36-38, Fenchurch Street, E.C., 12.15
New Cavendish Estates, 43-44, Albemarle Street, W., 12.00
Overseas Inv. Trust, 23, Great Winchester Street, E.C., 12.00
Smart (J), 28, Crammond Road South, Edinburgh, 12.00
Waterglade Intl., 8, Baker Street, W., 11.00
BOARD MEETINGS:
Finals:
Acatos & Hutcheson
Barcom
Devenish (J.A.)
GWR
Goldsinner
Shoprite
Turkey Tst.
Interims:
Abtrust Prfd. Inc.
Bromsgrove Inds.
Danae Inv. Tst.
First Technology
Gold Greenlees Trott
Learmonth & Burchett
MS Intl.
Optometrics
TGI
Tinsley Robor
Wessex Water
Yorkshire Electric

■ FRIDAY DECEMBER 18
COMPANY MEETINGS:
Albert Fisher, Royal Lancaster Hotel, Lancaster Terrace, W., 10.30
Lowland Inv., 3, Finsbury Avenue, E.C., 2.30
BOARD MEETINGS:
Finals:
Brunner Inv. Tst.
Kleen-e-Ze
Kleinwort Charter Inv.
Sycamore
Interims:
ASDA
Electric & Gen. Inv.
Forminster
Jones & Shipman

Company meetings are annual general meetings unless otherwise stated.

PARLIAMENTARY DIARY

■ TODAY
Commons: Debate on the Christmas adjournment. Consolidated fund bill, all stages, followed by all night session of backbench debates.
Lords: Debate on EC report on pension funds. Banking Co-ordination (second council directive) regulations. Education support grant regulations. Transport and works (description of works interfering with navigation) order. Transport and works (guided transport modes) order. Road traffic regulations Act (amendment) order. Debate on Southern Africa.
Committees: Employment. Subject: Employment consequences of British Coal's proposed programme of pit closures. Witness: Mr Neil Clarke, chairman, British Coal corporation, 4.15pm. Public Accounts. Subject: Welsh Development Agency, accounts 1991-92. Witnesses: Sir Richard Lloyd Jones, permanent secretary, Welsh Office; Mr Philip Head, chief executive and Dr Gwyn Jones, chairman, Welsh Development Agency, 4.30pm.

■ TOMORROW:
Commons: Education Bill, timetable motion. Civil service (management functions) bill, remaining stages.
Lords: British Coal and British Rail (transfer proposals) bill, report stage. Copyright (computer programs) regulations. Armenia and Nagorno-Karabakh.
Committees: National heritage. Subject: Privacy and media intrusion. Witness: Mr Patrick Shervington, 10.15am. Trade and industry. Subject: British energy policy and the market for coal. Witnesses: British Coal and Mr Michael Heseltine, trade and industry secretary, 4pm.

■ WEDNESDAY
Commons: Prisoners and criminal proceedings (Scotland) bill, remaining stages. Environmental information regulations.
Lords: Debates on overseas aid, unemployment and housing and the Bank of England and price stability.
Committees: Environment. Subject: Forestry and the environment. Witnesses: English nature, the Institute of Chartered Foresters, 9.15am. Foreign affairs. Subject: Europe after Maastricht. Witnesses: Professor Helen Wallace and Mr Martin Howe, 10.30am. Home Affairs. Subject: Policing. Witness: Sir Peter Imbert, Metropolitan police commissioner, 10.45am. Defence. Subject: UK peacekeeping and intervention forces: Royal Marines. Witnesses: Ministry of Defence officials, 11.15am. Transport. Subject: Future of the railways. Witnesses: Local authority associations, PTE group, Railway Line Users Group, Cotswold Promotion Group, Friends of the Settle-Carlisle line and the Southend-on-Sea Railway Travellers Association, 11am. Welsh Affairs. Subject. The use of treatment centres. Witnesses: East Dyfed Health Authority, 11.30am. Education. Subject: School inspections. Witness: Professor Stewart Sutherland, Her Majesty's Chief Inspector of Schools. 4.15pm. Employment. Subject: Employment consequences of British Coal's proposed programme of pit closures. Witness: Mr Michael Heseltine, trade and industry secretary, 4.15pm. Health. Subject: London Health Service. Witness. Sir Bernard Tomlinson, 4.15pm. Transport. Subject: Future of the railways. Witnesses: Trade Unions (RMT, ASLEF, TSSA), CBI. 5pm.

■ THURSDAY
Commons: Short backbench debates.
Lords: Crown proceedings (Armed forces) bill, third reading. Mink keeping order. Package travel, package holidays and package tour regulations. Aircraft and shipbuilding industries (repeals) (Northern Ireland) order. Firearms (Northern Ireland) order (amendment) regulations.

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Agricultural Mortgage Corp. 10¼% Db. 1992/95 £5.125
Allied Irish Banks Fltg. Rate Nts. 1995 $259.79
BankAmerica $0.325
Bowthorpe 1.79p
British Dredging 2.6p
China & Eastern Inv. $0.01
Conversion 9½% 2002 £4.75
DKB Asia Fltg/Fxd. Rate Gtd. Nts. Dec.2001 $2140.46
First Interstate O'seas Gtd. Fltg. Rate Sb. Nts. 1995 $132.71
Hambros 4.2p
Do. N/Vtg. 4.2p
Harrisons & Crosfield 3.6p
Hi-Tec 1p
Honeywell $0.445
Ibh (C) Fin. (Europe) 8¼% Var. Rd. Gtd. Nts. 1999 Y8125000.0
Marubeni Int. Fin. Stppd. Bd. 1994 Y800000.0
Prestwick Hldgs. 1p
Royal Bank of Canada Fltg. Rate Db. 2085 $85.31
RTZ 6p
Smith & Nephew 1.8p
Time Warner $0.07

■ TOMORROW
AECI 5.5% Gross Cm. Pf. R0.055
Bankers Tst. New York Fltg. Rate Sb. Nts. 2000 $128.39
Bear Stearns Fltg. Rate Nts. Sep. 1994 $85.31
Bradford & Bingley Bldg. Society Fltg. Rate Nts. 1995 £264.58
Brunswick $0.11
CSX $0.38
Caisse Nationale Des Autoroutes 16% Gtd. Ln. 2006 £400.0
Dana $0.40
Flash Ser.P Sec. Fltg. Rate Nts. 1993 $2308.56
Ford Motor $0.02
FPL $0.61
Gen. Motors Acceptance Corp. of Can. 10⅛% Nts. Dec. 1992 C$103.75
Hemlo Gold Mines C$0.10
Investors Cap. Tst. 5¼% Cm. Pf. £1.8375
Johnston Grp. 2.25p
Kajima Y4.5
King & Shaxson 4p
Do. 3.5% Cm. Ptg. Pf. 1.75p
Do. 5% Cm. 2nd Pf. 1.75p
Kobe Steel Y3
Limited $0.07
Louisiana Land & Expln. $0.25
Midland Bank Und. Fltg. Rate Prim. Cap. Nts. (Ser.3) $217.95
Murray Split Cap. Tst. 3.3p
NEC 5.5% Bd. 2000 Y148222.0
Pacer Systems $0.03
Pandick Press Int. Fin. 7% Cv. Sb. Bd. 1998 $35.0
Pennzoil $0.75
Rugby Gtd. Fltg. Rate Nts. Jun.1997 $13188.88
Royal Bank of Scot. Und. Fltg. Rate Prim. Cap. Nts. $222.40
St. James's Place Cap. 1.5p
Seagram $0.14
Thomson $0.113
Thornton Oriental Inc $0.35
Trinova $0.17
TRW $0.45
Utd. Biscuits 8% Db '93/98 £4.0
Wagon Indl. Cv. Ptg. Pf. 3.625p
Wells Fargo Fltg. Rate Sb. Nts. 1994 $132.71

■ WEDNESDAY DECEMBER 16
British Gas 6.4p
Cambridge Grp. IR0.45p
Chamberlin & Hill 1.75p
Citicorp O'seas Fin. Gtd. Fltg. Rate Nts. 1994 $15.17
Leeds Permanent Bldg. Society Fltg. Rate Nts. 1998 £303.02
Lloyds Bank Ser.C Var. Rate Sb. Nts. 1998 £315.14
Santander Fin. Issuances Sb. Und. Var. Rate Nts. $2488.28
Scotland Int. Fin. 14¼% Gtd. Fxd/Fltg. Rate Nts. 1996 $28.69
Sotheby's Hldgs. Class A Lim/Vtg. $0.15
Southeast Banking Fltg. Rate Sb. Nts. 1998 $288.88
TDK Y25

■ THURSDAY DECEMBER 17
Cambridge Water 55p
GUS 27.25p
GUS A 27.25p
GR (Hldgs) 1.8p
Japan Airlines 5.5% Bd. 1999 Y146687.0
Do. 5.7% Bd. 2002 Y152000.0
Keystone Inv.-10p
Land Securities 6.3p
Mercury Asset Mngmt. 3p
NEC 5.7% Bd. 2002 Y152000.0
Pfizer $0.37
Prowting 1.7p
Senior Eng. 9½% Un. Ln. 1994/99 £4.6875
Sumitomo Chemical 5.8% Bd. 1999 Y144687.0
Warburg (S.G.) 5.25p

■ FRIDAY DECEMBER 18
Amber Day 2p
American Int. $0.14
Barlows 0.825p
East Rand Gold & Uranium R0.20
Free State Cons Gold R1.05
Gaz Metropolitain 10.875% Db. Dec.1995 C$108.75
Gen. Motors Acceptance Corp. of Can. 9½% Nts. Dec. 1998 C$95.0
Global Grp. 0.2p
GMAC Australia (Fin) 10% Nts. 18/12/95 A$100.0
Hankyu 5.85% Bd. 2002 Y147875.0
Italian Int. Bank Sb. Fltg. Rate Nts. 1996 $219.22
Japan Airlines 8⅛% Gtd. Bd. 1996 $406.25
Kansai Elect. 8¾% Nts. 1996 C$87.50
Lawson Mardon Class A Sb. Vtg. C$0.10
Malaysia Mining M$0.02
Nationwide Bldg. Society Sb. Fltg. Rate Nts. 2000 £314.62
Norex 2p
Orange Free State R2.73
Overseas Inv. Tst. 2p
Portsmouth & Sunderland News. 2.84p
Prudential Funding 8.25% Nts. Dec.1995 C$82.50
Sydkraft 9⅞% Nts. Dec.1992 DKr1975.0
Tokyo Elect. Power 8% Nts. 1996 Y80000.0
VTR 2.2p
Welkom Gold R0.70
Welsh Indl. Inv. Tst. 4.7p
Yasuda Tst. & Banking Fltg. Rate Gtd. Nts. 2000 $115.01
Young & Co's Brewery A 7p
Do. N/Vtg. 7p

■ SATURDAY DECEMBER 19
Barclays Bank Fin. (Jersey) 10⅞% Sec. Dep. Nts. 1995 $1082.50
CNA Gallo R0.13
CSR Fin. 7½% Gtd. Bd. 1995 $375.0
Export-Import Bank of Japan 8½% Gtd. Bd. 1997 C$85.00
Forte 7¾% Nts. 1998 $775.0
Fujitsu 7⅜% Bd. 1997 Y737500.0
Hitachi Credit 7⅛% Bts. 1996 $71.25
Merrill Lynch 12.125% Nts. 1994 $121.25

■ SUNDAY DECEMBER 20
Blue Circle Inds. Cap. 10½% Cv. Cap. Bd. 2005 £262.50
Burmah Castrol Cap. (Jersey) 9½% Cv. Cap. Bd. 2006 £47.50
Dalwa Int. Fin. (Cayman) 7.875% Sb. Bd. 2006 $7021.88
Essex Water 3½% Perp. Db. £1.75
Do. 4% Perp. Db. £2.0
Do. 5% Perp. Db. £2.5
Do. 7¾% Db. 1991/93 £3.875
Do. 8% Db. 1991/93 £4.0
Do. 10% Db. 1992/94 £5.0
Do. 10½% Db. 1994/96 £5.25
Mount Charlotte 10¾% 1st Mtg. Db. 2014 £5.375

LEGAL NOTICES

NOTICE OF APPOINTMENT OF JOINT ADMINISTRATIVE RECEIVERS
Registered Name.
OXFORD HOUSE GROUP PLC
Registered Number: 2366573
Trading name: Oxford House College
Trade classification: Division 8 (41)
Names and addresses of Joint Administrative Receivers:

Vivian Murray Bairstow,	Neil Hunter Cooper,
Robson Rhodes,	Robson Rhodes,
186 City Road	186 City Road
London	London
EC1V 2NU	EC1V 2NU

Office holder numbers: 5316 and 5399
Date of appointment: 8th December 1992
By whom appointed: The Royal Bank of Scotland plc, 3i plc and NatWest Investment Bank Limited
Date of Charges: All 26th October 1989
Nature of charges: Debenture over the fixed and floating charge assets
V. M. Bairstow and N. H. Cooper,
Joint Administrative Receivers

NOTICE OF APPOINTMENT OF JOINT ADMINISTRATIVE RECEIVERS
Registered Name:
OXFORD HOUSE EDUCATION SERVICES LIMITED
Registered Number 2291322
Trading name: Oxford House College
Trade classification: Division 8 (41)
Names and addresses of Joint Administrative Receivers:

Vivian Murray Bairstow,	Neil Hunter Cooper,
Robson Rhodes,	Robson Rhodes,
186 City Road	186 City Road
London	London
EC1V 2NU	EC1V 2NU

Office holder numbers: 5316 and 5399
Date of appointment: 8th December 1992
By whom appointed: The Royal Bank of Scotland plc, 3i plc and NatWest Investment Bank Limited
Date of Charges: 21st August 1992, 26th October 1989 and 26th October 1989
Nature of charges: Debenture over the fixed and floating assets
V M Bairstow and N. H. Cooper,
Joint Administrative Receivers

NOTICE OF APPOINTMENT OF JOINT ADMINISTRATIVE RECEIVERS
Registered Name.
OXFORD HOUSE COLLEGE LIMITED
Registered Number 2399742
Trading name: Oxford House College
Trade classification: Division 8 (41)
Names and addresses of Joint Administrative Receivers:

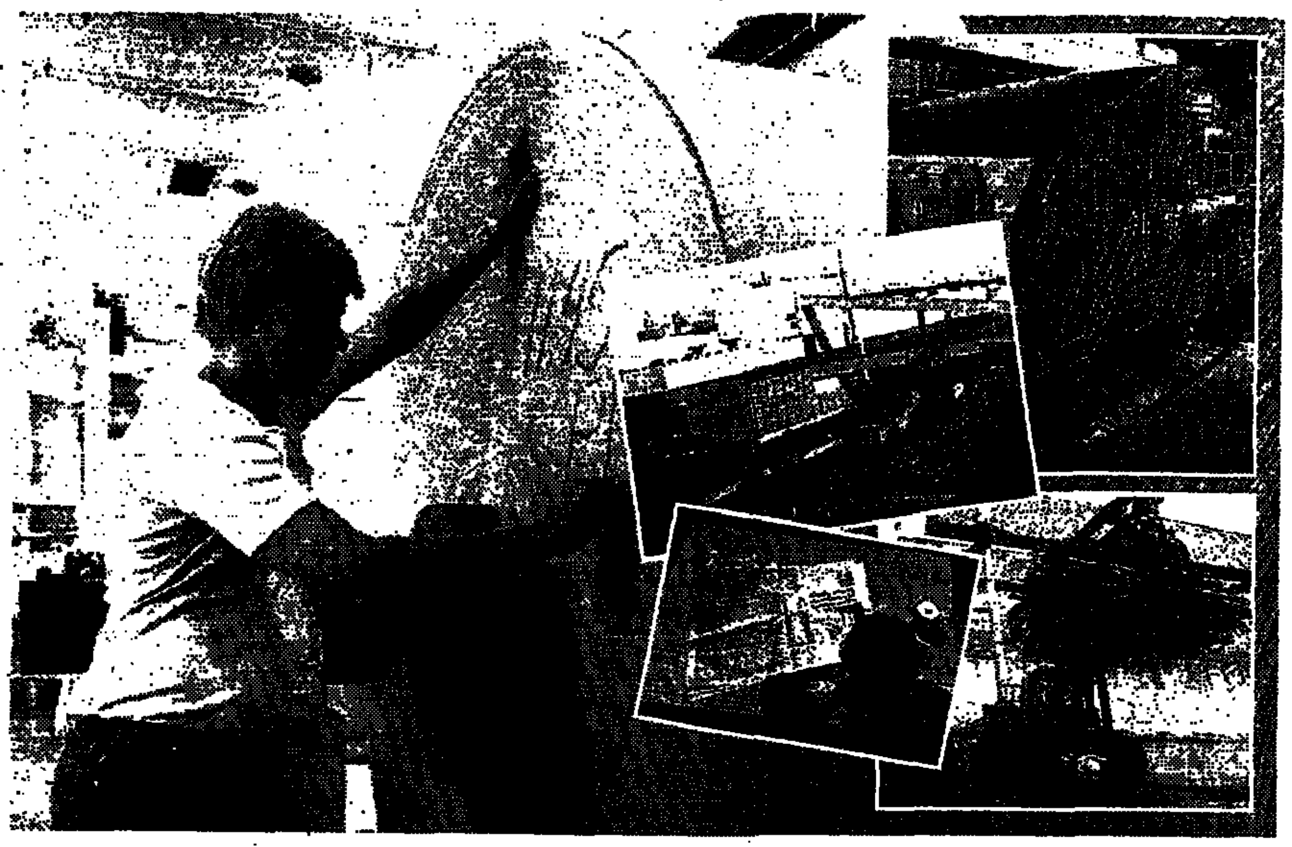
Vivian Murray Bairstow,	Neil Hunter Cooper,
Robson Rhodes,	Robson Rhodes,
186 City Road	186 City Road
London	London
EC1V 2NU	EC1V 2NU

Office holder numbers. 5316 and 5399
Date of appointment: 8th December 1992
By whom appointed. 3i plc and NatWest Investment Bank Limited
Date of Charges: 26th October 1989
Nature of charges: Both collateral debentures over fixed and floating charge assets.
V. M. Bairstow and N. H. Cooper,
Joint Administrative Receivers

FINANCIAL TIMES SURVEY

PULP AND PAPER

Monday December 14 1992



A self-inflicted wound

The collapse in profitability has been global, as recession and overcapacity cloud the industries, writes Paul Abrahams

THE PULP and paper industry is going through the shredder. Last year it presumed that prices had plumbed the bottom. It was mistaken. The downturn has been deeper and more prolonged than expected. For most groups, margins, prices and profits are still spiralling downward.

The main challenge facing the sector is not lack of demand. For most grades that continues to rise. The affliction besetting the industry is self-inflicted - overcapacity. The question is whether this is a normal part of the paper cycle, or a fundamental structural change.

The immediate cause of the overcapacity is all too familiar, says Dr Jan Remröd, director general of the Swedish pulp and paper association. "The good years of the late 1980s stimulated over-investment."

With supply outstripping demand, operating rates have fallen sharply, and with them prices, margins and profits. For some grades of paper, prices have fallen by as much as 40 per cent over the past two years.

The collapse in profitability has been global. Sweden's forestry companies expect to make a collective loss this year of SKr2bn (£193m), compared with a profit only two years ago of SKr12bn.

In the US, earnings at International Paper, the world's largest paper company, fell during the second and third quarters this year. Meanwhile, in Japan, Jujo, the third-ranking company, and Sanyo-Kokusaku, fifth-ranked, reported sharp profit falls of 49 per cent and 68 per cent respectively for the last financial year.

The plight of paper groups has been aggravated this year by turmoil in the currency markets. European commodity manufacturers suffered particularly from the depreciation of the dollar. Canadian and US manufacturers, faced with poor domestic demand, took advantage of the dollars' weakness to boost imports into Europe, intensifying problems there.

"Many European producers have been hurt as much by the dollar as overcapacity," says Mr Stephen Zinser, managing director of European paper and packaging at Chase Manhattan Bank.

Scandinavian groups have particularly suffered from fluctuating currencies. The decision to float the Finnish markka last September gave a significant push for paper groups there, but placed the Swedes at a meaningful disadvantage. There was near panic among Swedish producers until the Swedish Krona was also devalued in November.

The benefits of devaluation were initially considerable. "It was manna from heaven. It added 10 per cent to 15 per cent to turnover overnight," says Mr Zinser at Chase Manhattan.

He explains that hardly any of the Scandinavians' costs – mostly energy and wood – are dollar-denominated, so little currency-related inflation is imported. Meanwhile, revenues from Swedish-based plants increased immediately, both through currency translation and added volume through more attractive pricing.

However, in the medium-term, the benefits are less clear. As exchange-rate benefits work their way through, customers expect some to be passed on to them, driving prices down even further for the rest of the industry, says Mr Denis Christie, paper and pulp analyst at James Capel. In addition, the acquisition binge by Finnish and Swedish groups on the continent, during the late 1980s, has meant devaluations benefit them less than before.

Falling prices and the cost of expansion during the late 1980s – both of capacity and acquisitions – have left their mark on paper companies' balance sheets. With a few exceptions, such as KNP of the Netherlands and Arjo Wiggins Appleton, the Franco-British group, paper companies' balance sheets are over-stretched.

"Many groups in Scandinavia have debts greater than their turnover," admits Mr Timo Teräs, senior vice-president of market research and planning at Finncell, the Finnish pulp marketing organisation. Mr Thomas Nysten, managing director of the Finnish paper marketing body Finnpap, says Finnish groups are in more serious financial difficulties than those in other countries, because their capital structures are weaker.

Most are now looking to cut their environmental capital spending. The Swedish pulp and paper association reckons Swedish companies have spent SKr30bn on the environment since 1987. "We are in a position to slow down our environmental expenditure – and that just suits us fine at the moment," says Mr Bo Berggren, chief executive of Stora, Europe's largest paper group.

Other costs are also under attack. In the UK, four plants have been closed and 1,200 jobs lost during the last 12 months, according to the UK-based Pulp and Paper Information Centre.

Meanwhile, Scandinavian and north American groups have launched fierce cost-cutting exercises, including job losses, which Dutch and German companies have so far been unable to emulate.

Dr Remröd, at the Swedish pulp and paper association, estimates that the Swedish industry has cut its workforce by 30 per cent – some 200,000 employees – in the past three years. Stora, Europe's largest paper group, has reduced the number of its employees from 45,000 to 39,000, and says more job losses are on the way. Mr Bernt Löf, chief executive of MoDo, the Swedish paper group, laments: "We are closing mills that in three to five years time would be competitive."

However, it is far from clear whether such cost-cutting will be enough to let Nordic producers compete in the long-term with low-cost manufacturers in South America and Asia. Higher wages, transport and energy costs and the simple problem that trees in Scandinavian countries only grow 100 days a year, compared with 365 in Brazil, all work to the Scandinavians' disadvantage.

The flight by European companies from pulp and commodity grades to added-value papers has not been altogether successful. The rush into a number of fast-growing niche markets, such as coated woodfree, has merely shifted overcapacity down the product chain.

Shortage of cash has brought the heady acquisition activity of the late 1980s to an almost complete standstill. The only significant exceptions during the last 12 months included the DM400m (£166m) purchase in May of 90 per cent of Hannover Papier, one of Germany's leading producers of coated woodfree paper, by Sappi, the South African pulp and paper company. International Paper also acquired an 80 per cent stake in Kwidzyn Pulp and Paper Company, Poland's largest paper group, for $120m.

In spite of the paucity of acquisition activity, a consolidation process is inevitable, according to Mr Sverker Martin-Löf, chief executive of SCA. He says weak balance sheets will force groups together to allow them to cut costs. The most likely route for the present is through mergers rather than acquisitions.

"Given the premium needed to purchase paper companies at the moment, it's nearly impossible to put together any acquisition of substantial size," says Mr Michael Bottenheim, a managing director at Lazards, the merchant bankers.

In Japan, Jujo Paper and Sanyo-Kokusaku Pulp, two leading Japanese paper producers led the way in July when they merged to create the country's largest papermaker. And last month the Dutch groups, KNP, VRG and Bührmann-Tetterode, announced their intention to create Europe's second-largest paper and packaging group. Further mergers in Scandinavia are likely in the coming years.

The main banking requirements will be for debt refinancing. Many companies need to refinance next year, but will have to renegotiate on the basis of poor 1992 results. Refunding will unhappily coincide with the bottom of the cycle. It is a brave bank at the moment that wants to increase its investment in the paper industry.

Nordic groups are faced with the steepest refinancing challenge. Given the reluctance of international banks to finance paper groups, they would normally fall back on their domestic counterparts. But the Scandinavian banking system is in crisis.

Many paper companies are now looking at project finance which can be carried off-balance sheet. An alternative would be to try to access other European equity markets, if only paper companies can convince investors of their longer-term prospects.

The outlook for the industry is so uncertain that most groups have stopped offering prophesies. Most executives have been repeatedly guilty of wishful thinking. Mr Berggren, at Stora, says: "We have been wrong so many times, we have given up trying to predict. But there are no signs of improvement."

Mr Martin-Löf, at SCA, believes this downturn is longer and deeper than others. The overcapacity, in some grades, could last until the late 1990s, he says.

Nearly every paper company reckons it will become a money making machine – just as soon as the recovery comes. The problem is that nobody knows when the recovery will arrive.

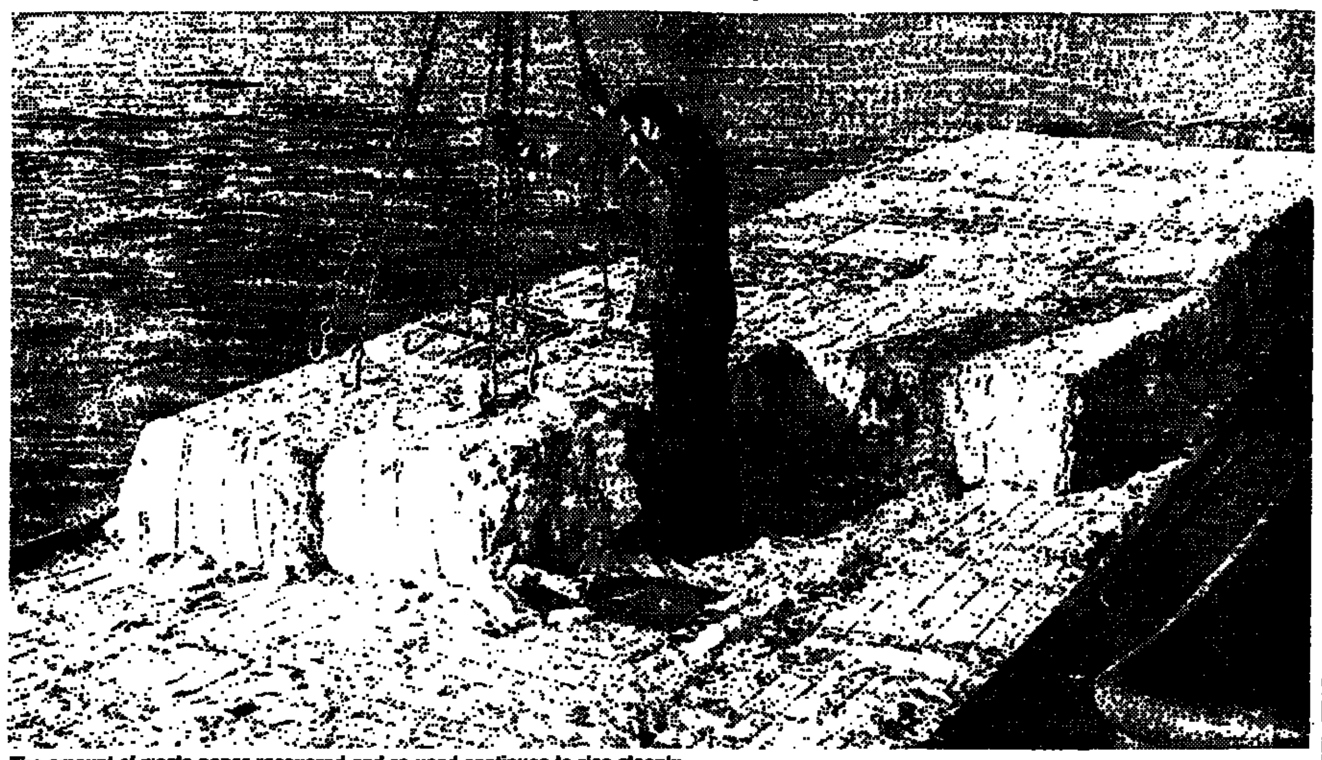
IN THIS SURVEY

The cycles get longer and deeper

West European production of paper and board: 1983-91

	Total m tons*	Change m tons*	% change
1983	44.2		
1984	48.4	4.2	9.6
1985	48.6	0.2	0.5
1986	50.4	1.8	3.6
1987	53.3	2.9	5.7
1988	57.3	4.0	7.6
1989	59.4	2.1	3.6
1990	61.5	2.1	3.5
1991	62.1	0.6	0.9

*Rounded figures Source: Cepi



The amount of waste paper recovered and re-used continues to rise steeply

The industry and the environment

The green conundrum

THE "green" challenge facing the pulp and paper industry is not just creating demands for cleaner higher-quality products, but it is also beginning to disrupt many of the previously-accepted economic patterns in the industry.

As a result of the more widespread use of waste papers throughout the developed world, the industry's centre of gravity is slowly shifting from the virgin forests of the Nordic countries and Canada towards the more highly populated "urban forests" of central Europe and the US.

There is a limit to this process, because the recycling loop can never be entirely closed: there will always be a need for the input of fresh virgin pulps to strengthen the fibre content of paper products. But the trend is clear and unmistakeable.

According to a recent Financial Times Management Report, the amount of waste paper recovered and re-used to produce more paper rose from 60m tonnes in 1985 to almost 84m tonnes by 1990. It is forecast to climb to 150m tonnes by the end of the decade.

Its growing utilisation has begun to change the entire economics of paper production in many countries, as manufacturers find it more cost-effective to build new plants near the centres of waste paper supply. The UK is a prime example.

Throughout the 1960s and 1970s, the strength of the British paper industry was sapped by labour unrest, high production costs and the awkward pressures caused by its dependence on pulp imports bought directly from rival Scandinavian companies, which produced both raw pulp and finished paper products.

But the indigenous UK manufacturing industry was largely "saved" by switching to the use of cheap raw materials, in the form of newspapers collected from the UK's centres of population. The industry's utilisation rate (defined as the amount of waste paper re-used in production) now stands at 60 per cent – one of the highest in Europe – although its economics have recently been threatened, as a result of the falling European prices for waste paper caused by a glut of supply stemming from mandatory recycling schemes in Germany. The paper industry in Germany is now in the process of building four paper mills to soak up this excess supply, further emphasising the shift towards locating plants near their end markets.

But in spite of the economic attractions, the simple environmental equation that all recycling is necessarily good has exasperated the industry. In many respects, the paper producers argue that this simple truism is not, in fact, true and that the energy and environmental costs of additional paper recycling do not add up in some circumstances.

The industry suggests that paper is, anyway, an infinitely renewable and benign resource if properly managed. What is the difference between harvesting properly-cultivated trees and corn or wheat – other than a vast divergence in growing times, they ask?

According to industry estimates, 94 per cent of the wood used by European paper and board producers comes from sustainable managed forests, with the other 6 per cent coming from North America and the countries of the former Soviet Union. For a long time, more trees have been planted in Europe than have been felled each year.

However, despite the industry's best efforts, environmental campaigners still find much to protest about in forestry and paper manufacturing practices around the world. The environmental damage caused by "clear-cut" fellings, when whole forests are harvested at one time, has alarmed many environmentalists, although the industry is trying to limit this practice and argues that the damage is only temporary.

Environmentally-responsible forestry, in Finland

Campaigners also worry when conifer and eucalyptus forests are planted without due regard for their impact on local fauna and flora. Such unnatural forests can cause ecological "mono-cultures", destroying the diversity of species that are normally found in varied forests.

Environmentalists also highlight the level of effluents produced at some pulp and paper mills – although, again, the industry, prompted in many cases by government legislation, has gone far to clean up its act.

Attention has also focused on the level of harmful dioxins created by chlorine-bleaching of pulp, a process which is used to brighten paper products. These toxic dioxins are caused by the chlorine reacting with the lignin in the wood. Although the level of dioxins in paper is minute (less than 8.2 parts per trillion) and there is scant evidence to suggest that people have been harmed by handling their products, the issue became something of a *cause célèbre* in the late 1980s as a result of a rash of wild fears about dioxin poisoning from chlorine-bleached nappies.

As a result of the public outcry, companies have generally stopped using chlorine-bleached paper for nappies, and are reducing its use elsewhere while investigating alternative bleaching agents.

Many companies have made a virtue of this necessity by marketing their paper products as "green", and some have even cheekily added a price premium for the supposed environmental benefit.

The packaging of paper products has also become the subject of environmental and marketing scrutiny. Arjo Wiggins Appleton, the Franco-British paper group, for example, has reported sales successes of its carbonless papers in Germany, as a result of wrapping them in an innovative new packaging system made from layers of recycled paper.

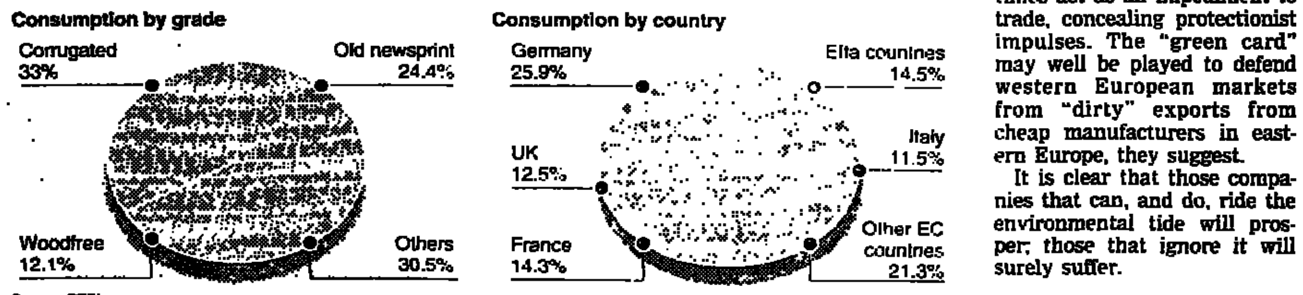
Such economic impulses, combined with the emotional connotations associated with the environment, will ensure that green issues remain at the forefront of the paper industry's concerns for the foreseeable future.

Yet some fear that environmental initiatives can sometimes act as an impediment to trade, concealing protectionist impulses. The "green card" may well be played to defend western European markets from "dirty" exports from cheap manufacturers in eastern Europe, they suggest.

It is clear that those companies that can, and do, ride the environmental tide will prosper; those that ignore it will surely suffer.

John Thornhill

Waste paper in Europe



Source: CEPI

The pulp industry

Longer and deeper cycles

THE MAIN challenge facing the world's pulp industry is a familiar one – a massive imbalance of supply and demand. But there is no obvious remedy for the sector's dire operating rates, prices and profitability.

The predicament is all the more grim because, for a brief moment at the beginning of the year, it thought the market had turned the corner.

At that stage, prices for northern softwood had tumbled from a peak in 1989 of $840 a tonne to as low as $460. The industry reckoned that $460 was the bottom, and during the first quarter of this year started to push through price increases.

At first, pulp producers' optimism seemed justified. During the first six months, prices headed upwards, with list prices even reaching $600 a tonne, although there was still considerable discounting. World shipments in Europe to the end of July increased by 12 per cent, compared with last year's admittedly depressed volumes, says Mr Roger Wright, of Hawkins Wright, the marketing and research consultants.

But then the market turned. "Over the last few months, the psychology has reversed," says Mr Stephen Zinser, managing director of European paper and packaging at Chase Manhattan Bank. "Customers built up inventories in anticipation of a strike in British Colombia. That proved shorter than expected, and prices started heading down."

"The recovery was artificial – an illusion," says Mr Wright. "All that happened was that inventories moved from producers to users, who thought prices were going to move upwards. Paper consumption remained depressed, leaving customers with higher stocks. Naturally they cut back on pulp orders."

One observer says it would not be an exaggeration to say that prices are now in free-fall, with list-prices for northern softwood at about $560, but discounted transaction prices at as little as $450. Payment terms are also becoming more generous.

Prices in real terms are lower than ever before, admits Mr Timo Teräs, senior vice-president of market research and planning at Finncell, the Finnish pulp marketing organisation.

The question facing the industry is whether this is part of a normal cycle, linked to the slow-down in the growth of the world economy, or whether something more structural is occuring.

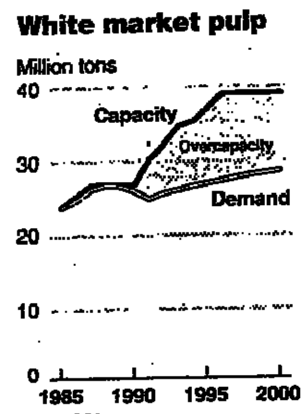
Certainly, the pulp industry's cycles appear to be getting longer and deeper, according to Mr Sverker Martin-Löf, chief executive of the Swedish group SCA.

The structural problems are not hard to identify. The most significant is massive overcapacity. World supply is 34.8m tonnes, a 6 per cent increase on 1991. But world demand is only about 29.9m tonnes, and growing more slowly – up 3 per cent on last year.

On the demand side, virgin pulp is facing increasing competition from recycled fibre, whose growth has been pushed by environmental legislation, particularly in the US and Germany. "The fastest-growing 'forests' [waste paper awaiting collection] are in the cities of Europe," admits Dr Jan Remröd, director general of the Swedish pulp and paper association.

The plight of some grades is worse than others. For northern softwood pulp, the position is far worse, because it is losing market share to southern softwood: annual capacity is at 9.3m tonnes, while demand is almost static at 7.7m tonnes, according to Mr Wright.

White market pulp



Source: SCA

The most significant problem is massive overcapacity. World supply is 34.8m tonnes, a 6 per cent increase on 1991. But world demand is only about 29.9m tonnes, and growing more slowly – up 3 per cent on last year

The industry's difficulties have also been exacerbated by increased integration over the past few years. European groups have added paper machines to their pulp plants, reducing the size of the traded pulp market, says Mr Teräs, at Finncell. That has led to exaggerated swings in prices.

On the supply side, the imbalance is partly caused by pulp manufacturers starting construction of new capacity simultaneously during the late 1980s. But a structural shift of the economics of pulp production, between the northern and southern hemispheres, is also taking place.

"The major threat to us is from countries like Chile and Brazil," says Mr Bernt Löf, chief executive of MoDo, the Swedish group.

He explains that a eucalyptus plantation in Brazil can be harvested in only eight years, while pine in Chile can be cut after 30 years. That compares with a period in Scandinavia of 80 to 100 years, because of the limited short growing season during the short summers of northern climes.

Mr David Walker, vice-president of corporate analysis at Jaakko Poyry Oy, the paper and pulp consultants, estimates that wood costs in Chile are a third of those in Scandinavia.

In addition, the cost of transporting wood in Scandinavia is higher, because a greater surface area is needed to supply the pulp mills, says Mr Löf, at MoDo. Harvesting costs are also less, because of lower wages in South America.

The build-up of South American production has been rapid and substantial. In Brazil, Aracruz has just completed a $1.2bn expansion programme, including a new 525,000-tonne a year line at its plant in Espirito Santo, north of Rio de Janeiro. In addition, Bahia Sul has started production at a plant. Eventual yearly production will exceed 400,000 tonnes, but a 250,000 tonnes a year paper plant should start next year. Chile has added capacity of 1m tonnes a year over the last 18 months, three-quarters of which is pine-based with the balance provided by eucalyptus.

With supply outstripping demand and prices still poor, operating rates remain terrible, says Mr Wright. Manufacturers, whose inventories are building up, are likely to close plants for maintenance for extended periods, he reckons.

Most pulp producers are busy cutting costs. MoDo, for example, is believed to have saved about SKr1bn (£96.7m) over the last three years through cost- cutting. Mr Löf says a further SKr1bn will be saved next year and another SKr300m could follow, but after that he'll start praying.

Finnish groups have also been cutting their cost-base. A combination of the devaluation of the markka and reduction in labour and energy costs have helped to some extent, says Mr Teräs, at Finncell. "We need every margin possible," he adds.

Mr Jan Remröd, director general of the Swedish pulp and paper association, points out that Scandinavian costs are falling as those of South American producers start to rise.

But in spite of cost-cutting, a structural imbalance remains. There is little sign of an upturn in the world economy to allow demand to catch supply. The economies of Germany and most of the rest of Europe appear to be slowing, as is that of Japan. The US may be beginning to pick up, but the growth in market pulp there is limited because so much production is integrated into paper production.

The most obvious way to solve the crisis would be to close capacity. Mr Löf, at MoDo, points the finger at Canadian producers. "Their pulp mills are small and old. It will cost a fortune to improve their environmental performance. They are obvious candidates for closure." Nevertheless, the barriers to exit are formidable.

The Scandinavians' position may be less precarious. The Swedes have slashed costs, while investing heavily in new plant to produce the totally chlorine-free pulp now increasingly demanded by German, Austrian and Swiss consumers.

Mr Wright says that, although Nordic wood costs are still more than 80 per cent higher than in the US and Chile, they should continue to fall through the 1990s as more softwood resources reach maturity.

Finnish companies are also making efforts to become more cost-competitive.

Whether such measures are enough to secure the long-term future of northern hemisphere manufacturers remains to be seen.

Paul Abrahams

Merchanting and added-value papers

Leaving the roller-coaster

THE ROLLER-coaster ride of the paper industry, from outstanding profits to numbing losses, may be exhilarating, but it is a far from comfortable.

Pulp and most grades of paper represent classic examples of cyclical industries. And they are becoming more and more classical as each downdraught of the cycle appears to become increasingly deep and long.

One reason is the growing size of paper machines. A world-scale competitive paper plant now has a capacity of at least 200,000 tonnes a year, and sometimes more than 300,000 tonnes, explains Mr Denis Christie, paper, pulp and packaging analyst at James Capel.

Each time a new plant comes on-stream it adds a significant chunk to regional capacity. Most paper groups demonstrate lemming-like behaviour when the economic cycle is at its peak. Unwilling to lose market share, they invest in these new increasingly large plants simultaneously, aggravating the subsequent imbalance of supply and demand.

Not surprisingly, the more enlightened paper groups have attempted to get off the roller-coaster by diversifying into less cyclical paper businesses. These range from packaging to specialist papers and even merchanting.

The Swedes have for some time been masters of adding value to paper. Mr Sverker Martin-Löf, chief executive of SCA of Sweden, explains that Swedish groups' home market is so small that they have to export, and these exports have to be products that can stand long distribution and can be differentiated.

That excludes commodity products, such as pulp and newsprint. Mr Martin-Löf says Sweden cannot compete in the long-term in commodity products, because of the high costs of production there. The group has integrated its pulp production into paper products, to the extent that it is now a net buyer of pulp.

SCA has spread its risk over the past 10 years by diversifying into hygiene and packaging products. Mr Martin-Löf proudly points out that the baby-nappy and feminine-protection markets have been almost unaffected by the recession, growing at up to 5 per cent this year. Similarly, the packaging market – for which SCA provides high-value coated paper – has expanded at 1.5 per cent to 2 per cent.

To provide its packaging and hygiene products to its customers, it has had to move production to the continent, says Mr Martin-Löf. "We can't sit and die in Sweden," he says.

Dr Jan Remröd, director general of the Swedish pulp and paper association, explains that, traditionally, the industry has been based in the forest. Now it has to look at the consumer. "The Swedish government may not like it, but any further investment in the medium-term is unlikely to be in Sweden."

Mr Bo Berggren, chief executive of Stora, Europe's largest paper group, says there is a clear trend that the industry is becoming less global, because market demands are becoming more specific. Customers want quality and just-in-time deliveries. That means moving to the continent.

"We have been in the vanguard of added-value," Mr Berggren proclaims. "We are unrecognisable from the mid-1980s." Stora has been moving further and further from the pulp market. It used to sell up to 600,000 tonnes a year, but it is now in a balanced position. Instead, the group has moved into printing and writing papers as well as board for food packaging.

The example of the Swedes is now being followed by the Dutch. The recent announcement by KNP, VRG and Bührmann-Tetterode that they intended to merge was driven by the desire to reduce their dependence upon pure paper markets.

Mr Robert van Oordt, chairman of Bührmann-Tetterode, explains: "Because new paper machines have to be so large and can therefore distort the market so easily, the risk of making a misjudgment is enormous. By having other activities, we reduce the risk for the group of introducing new machines."

Not surprisingly, the more enlightened paper groups have been diversifying into less cyclical paper businesses. These range from packaging to specialist papers and even merchanting. The Swedes have for some time been masters of adding value to paper.

The combined group will have only Fl 2bn (£442m) of its Fl 13bn turnover in direct paper products. The counter-weights, as Mr van Oordt calls them, include packaging, graphic systems, office equipment and paper merchanting.

However, the attempts to escape cyclical commodity paper markets have not always been entirely successful, explains Mr David Walker, vice-president of corporate analysis at Jaakko Poyry, the Finnish consultants.

Paper companies have an unfortunate herdlike instinct, which means that, once one group has identified a fast-growing niche area, most of the rest plough in, leading to massive overcapacity and commodity-style prices. "To be frank," says Mr Berggren, at Stora, "Overcapacity is affecting most grades at the moment."

Mr Walker points out that a number of companies moved into the uncoated super-calendered (SC) magazine market with mixed results. Repola has 800,000 tonnes annual capacity, Myllykoski 540,000 tonnes, Stora 475,000 tonnes and SCA 330,000 tonnes.

Yet according to David Christie, analyst at James Capel, the outlook for SC magazine papers is probably the bleakest of all paper types, because capacity is expected to rise sharply over the next 18 months with the start-up of two machines, one of Repola's and one of Norske Skog, with a combined annual capacity of 550,000 tonnes. Naturally, operating rates, prices and margins, are all poor.

Similarly, coated woodfree and carbonless are both areas with high-technology content and added value; but both are afflicted by overcapacity, says Mr Alain Soulas, newly appointed chief executive at Arjo Wiggins Appleton, the Franco-British paper group.

Prices of coated woodfree have fallen by about 23 per cent since 1989, in spite of the market growing as much as 12 per cent a year.

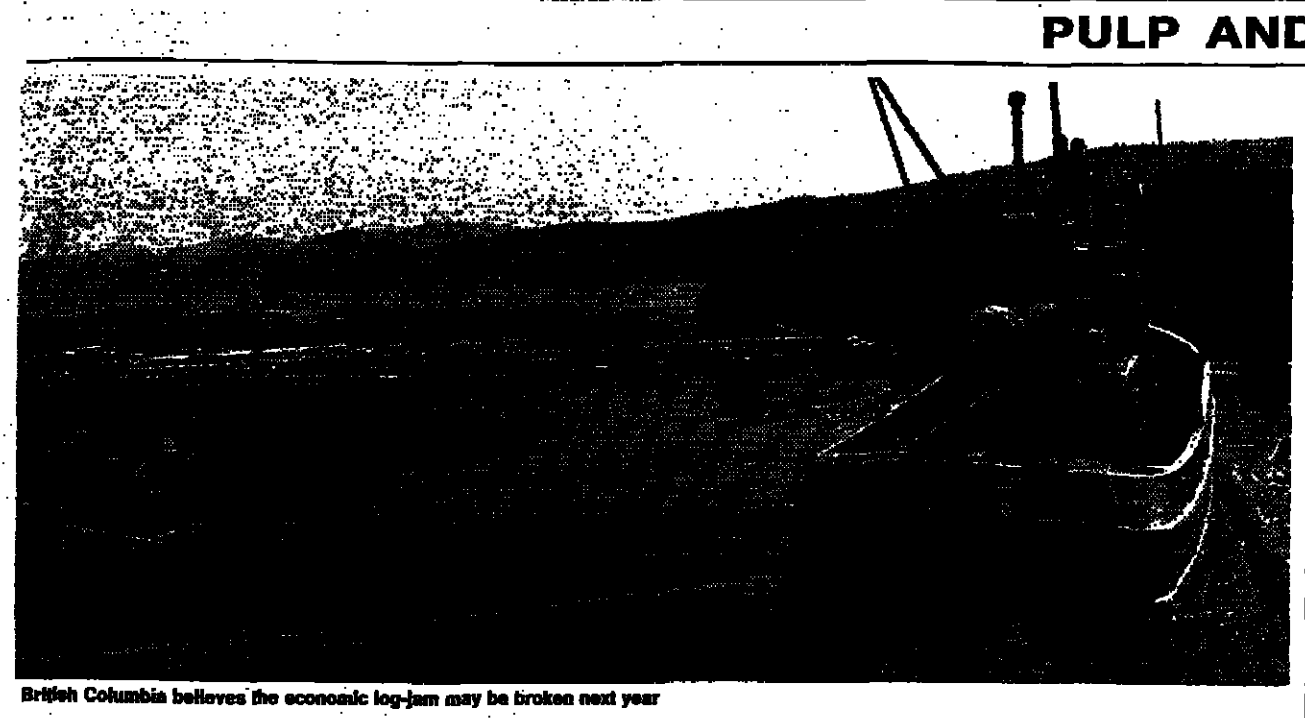
Mr Soulas believes the most important way of protecting investments from this sort of herdlike instinct is to brand products. He points to the group's Idem brand, which has allowed it to keep 30 per cent of the market and partially resist pricing pressure. He believes that achievement is outstanding.

AWA's Conqueror writing-paper brand has actually increased both sales and prices over the last 12 months, he says. Other successful niches include playing-cards, banknotes, medical papers and labels.

AWA is also Europe's largest existing merchanting company, although it may be challenged for that title by the new Dutch grouping. Mr Soulas believes about half of AWA's turnover in Europe has not been affected by the downturn.

Paul Abrahams

PULP AND PAPER 3



British Columbia believes the economic log-jam may be broken next year

Regional report: **North America**

The worst may be over

THE BEST that can be said for the North American pulp and paper industry is that signs are emerging of a patchy recovery.

But the emphasis is patchy. Price discounting and spare capacity are still prevalent in many sectors. International Paper, the biggest US producer, reported a 7 per cent drop in third-quarter earnings with the comment that prices for uncoated papers remain under pressure.

Georgia-Pacific, which suffered a third-quarter loss, noted that much of the industry is still burdened by high inventories and excess capacity. In mid-November, Mr Sherman Chao, analyst at Merrill Lynch in New York, cut his 1993 earnings estimates for seven US forestry groups on evidence that weakening Scandinavian currencies and the strong US dollar are intensifying competition from European pulp.

"The burden of world overcapacity will be borne more by the US industry," Mr Chao says, adding that soft pulp prices could ripple through to weak prices for a wide range of papers.

Nonetheless, there are signs that the worst of the recession is over. Although Mr Chao has cut his 1993 earnings estimates, the revised figures still represent an improvement on this year's expected performance. Another analyst, Mr Chip Dillon, of Salomon Brothers, predicted in a recent report that prices of lumber, linerboard, pulp, newsprint, uncoated and coated papers, and tissue should all recover during 1993, although in some cases, the upturn will be shallow.

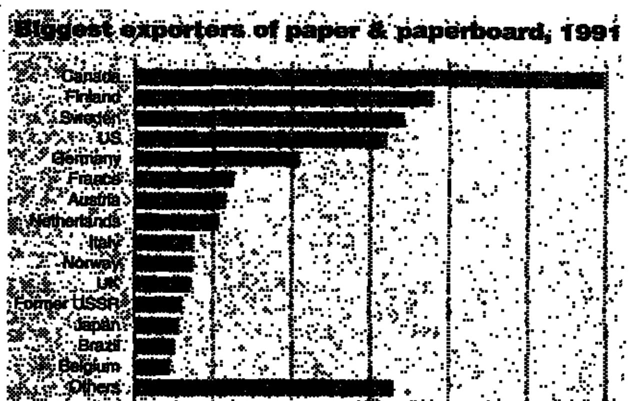
Producers of lightweight coated papers lifted prices by 4 per cent on October 1, and east-coast newsprint producers succeeded in pushing through a 5 per cent price increase (or, to be more precise, a 5 per cent cut in list-price discounts) on August 1. An official at Abitibi-Price, the Toronto-based newsprint-maker, says that "demand has been a little more sustained than we originally thought." Abitibi has cancelled much of the downtime which it planned for its newsprint machines in the second half of this year.

Canadian pulp and paper makers, whose high costs have made them the heaviest casualties of the recession, are also benefiting from a 13 per cent tumble in the Canadian dollar against the US currency over the past year. British Columbia's Council of Forest Industries predicts that Canadian west-coast producers could, on aggregate, break even or show a small profit in 1993 after combined losses of almost C$900m in 1991 and an estimated C$400-500m this year.

The cautiously upbeat mood is based on hopes of a recovery in the US economy from 1993, and on the painful restructuring which has taken place within the North American pulp and paper industry over the past three years. The optimists' argument runs that, as a sector which is traditionally sensitive to the business cycle, the paper industry could be among the early winners of any economic stimulus administered by the new Clinton administration in Washington.

Industry operating rates already exceed levels normally seen at the start of an economic upswing. Linerboard mills, which produce the inner and outer layers of a corrugated cardboard box, are operating at almost full capacity, and are expected to push through a price increase before the end of the winter.

Furthermore, little new capacity is likely to come onstream in the early stages of the recovery. According to Mr Dillon, of Salomon Brothers, the American Paper Institute's (API) forecast of new capacity, due to be published later this month, will point to an annual increase of only 1.3-1.4 per cent. This compares with the API's earlier forecasts of 1.8 per cent annual expansion between 1991 and 1994, and an average of 2.8 per cent in the three decades to 1990.



A recovery will be especially welcome to the newsprint industry, which has seen some of the most wrenching changes of the past few years. Customers have become more demanding, with the range of products expanding to include soft-calendered, high-gloss and coloured newsprint, as well as a growing quantity of paper made from recycled pulp.

According to the API, some 52 per cent of all newsprint is now recovered for recycling in the US, up from 35 per cent in 1988. More than half of all corrugated material is also recovered.

Fierce competition has put especially heavy pressure on Canadian newsprint producers, whose capacity shrank from a peak of 10.3m tonnes last year to 9.8m tonnes in September. With the rising demand for recycled newsprint, Canadian mills have been handicapped by their distance from the main urban centres. The Canadian industry has also paid the price of a high cost structure. Several old, inefficient machines, mostly in eastern Canada, have been closed down.

According to the Canadian Pulp and Paper Association, shipments to the US tumbled to 4.23m tonnes in the first nine months of 1992, from 4.88m tonnes in the same period of 1990.

Meanwhile, US suppliers' share of their home market has climbed from 4.16m tonnes to 4.27m tonnes, but the US newsprint market itself has become more fragmented. California's ailing economy and sagging demand in Japan have opened a gap of about $35 a tonne between east- and west-coast newsprint prices.

At least one big California newspaper publisher is understood to have told suppliers that it is unable to accept any discount reduction for the time being. By contrast, east coast producers' thoughts are already turning to another price increase next spring.

Bernard Simon

Regional report: **Scandinavia**

Weaker krona lifts Sweden

THE 19 per cent jump in the shares of Sweden's forestry companies the day after the country floated its currency last month said it all. Sweden's pulp and paper groups were competitive again, after a year in which a strong Swedish krona had seen them outflanked by rivals in North America and Finland.

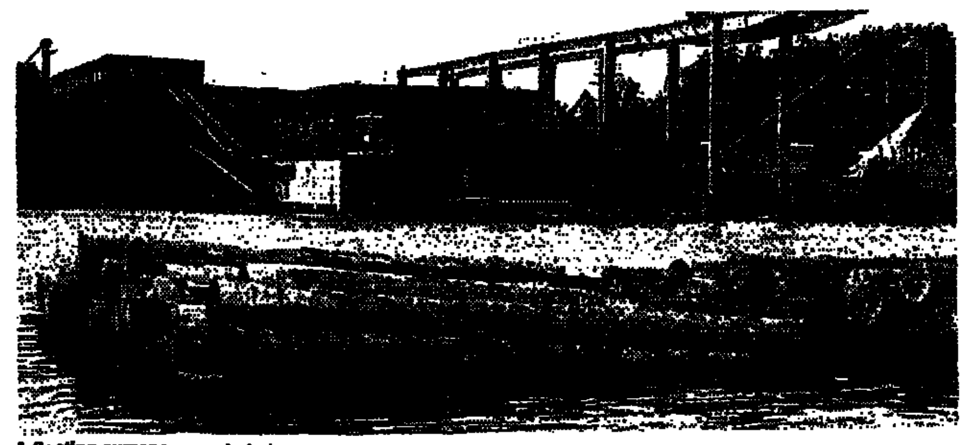
A weaker currency may not be an instant fix for all the problems battering the highly-cyclical forestry industry – now very much in one of its down phases – but it certainly helps. Finland has boosted both export prices and volumes since devaluing the markka in November 1991, and it has gained a further benefit from floating its currency in September.

Indeed, the currency changes may help make 1992 a turning point for the forest companies of both Sweden and Finland. The two countries expect their pulp and paper sectors to make a loss this year, but are cautiously optimistic that 1993 will bring a return to profit. The benefits of rationalisation, a stronger dollar and an upturn in the US market will also be vital ingredients in any turnaround.

Prices remain, nevertheless, under strong pressure because of market overcapacity. Sweden and Finland also face special competitive difficulties. They have slower tree-growth rates, higher wood and labour costs, and a less favourable tax regime than some of their rivals.

In Sweden, forestry companies have had one of their worst years for a long time and are looking at a collective loss of SKr2bn (£193m) for 1992. This compares with a SKr3bn profit last year and a SKr12bn profit in 1990. As a result of devaluation, and assuming unchanged prices, the the industry association calculates that companies will be SKr3bn better off. The improvement would have been even greater if the UK, Italy and Spain had not also seen their currencies effectively devalued during the year.

MoDo, one of the three biggest Swedish forestry groups, estimates that it will gain SKr900m a year as a result of the weaker Swedish currency, though not until current hedging programmes have expired in the second quarter of next year.



A floating currency may help to turn the tide

Devaluation is not, however, the panacea it might have been 10 years ago, when exports by the Swedish companies from Sweden accounted for some 80 per cent of their turnover. Now much more of their capacity is based outside the country, and Stora, Europe's biggest paper and pulp group, exports only some 24 per cent of its turnover from Sweden. Finnish experience has shown, too, that buyers seek a cut from devaluation, putting further pressure on prices.

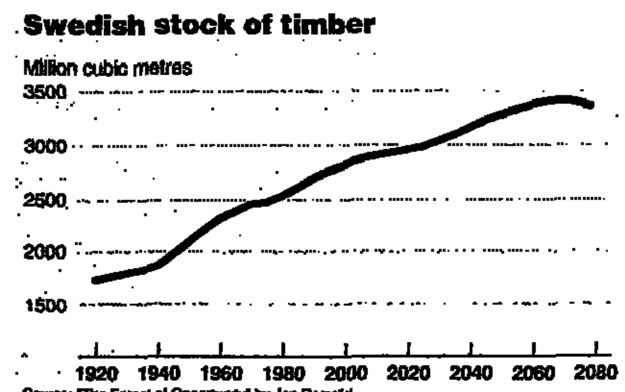
Swedish companies will certainly benefit from cost-cutting efforts put in place over the last two years. Stora alone has shed 6,000 jobs since 1990 and is looking to cut costs by a further SKr2bn over the next two years.

Yet Mr Jan Remröd director general of the Swedish pulp and paper association, stresses that devaluation alone will not not make the Swedish forestry industry competitive. Sweden still has the highest costs in the world, because of its wood and labour costs, high tax levels, and environmental ambitions.

Finland, too, still enjoys a competitive advantage over Sweden because the markka has effectively been devalued by 25 per cent over the last year, which is much more than the drop in the value of the krona.

The Finns also benefit from state-of-the-art technology and have been much more aggressive in cutting raw material costs. One estimate suggests that Finnish wood costs have fallen by up to 40 per cent over the last two years.

Finnish pulp and paper groups have not been able to take full advantage of their competitive position, however, because of the heavy debts accumulated as a result of big investment programmes in the late 1980s. Those with high levels of foreign debt have found their position exacerbated by the weakening of the markka.



Source: "The Forest of Opportunity" by Jan Remröd

Debt-servicing costs and foreign exchange losses help explain why the Central Association of Finnish Forest Industries expects the country's pulp and paper companies to post a total loss of FM3.5bn this year. This is despite a 6 per cent rise in export volumes and a 9 per cent increase in export value, to FM39bn, during 1992.

For the first eight months, the country's four leading forestry groups – Repola, Kymmene, Metsa-Serla and Enso-Gutzeit – were all in the red, notching up a combined loss of FM1.7bn (£900m). For 1993, a modest collective profit of FM300m is predicted, but this assumes a 7 per cent rise in export volumes and a 12 per cent increase in value.

The debt problem remains a serious one, however. The large Finnish groups have been forced to reduce leverage through cutbacks in capital expenditure, as stock market conditions have not favoured equity raising.

For both Finnish and Swedish producers, the most worrying question is how much further the European market will turn down, and how much further prices will come under pressure. The concern applies particularly to the German market.

"The first half of 1993 will be very difficult, because of flat or negative GDP growth in many of the large European markets," says Mr Denis Christie, paper and packaging analyst at James Capel.

Against this, there is the expectation of a stronger dollar and a recovery in the US economy, which should reduce the level of North American exports to the European market and ease price pressures.

Christopher Brown-Humes

Profile: **Jamont** the pan-European consumer paper products group

Supplier to the supermarkets

RONALD SINGER says he would rather Jamont were not described as a paper company – which sounds strange from the chief executive of Europe's second largest manufacturer of tissue.

But Mr Singer was the man entrusted, three years ago, with forging Jamont out of a diverse collection of 14 paper-product manufacturers scattered across Europe. People listen to what he has to say about Jamont's corporate identity.

"I consider us a consumer-products company," he explains. "We make the kind of products that are sold in a supermarket."

That means tissue, of all sorts, which represents 75 per cent of the group's business, but also cotton products, feminine hygiene products and paper plates. In the European market, only Scott of the US is bigger, with an 18 per cent share, against Jamont's 14 per cent.

More important for Mr Singer, an American, Jamont is a genuinely pan-European group. It is a Dutch holding company, with its headquarters in Brussels (to take advantage of Belgium's generous tax-breaks for multinational headquarters), and subsidiaries manufacturing in 11 countries, both inside and outside the EC. Almost inevitably, the group does all its accounting in the European currency unit, the ecu.

Mr Singer believes that annual turnover of Ecu1.2bn (£970m) to Ecu1.3bn is impressive in any currency, and although he declines to reveal any more figures, he says the group is "substantially profitable". If market conditions are right, then a stock market flotation may be considered as early as 1994.

All this has happened in less than three years. Descendant of a joint venture between James River Corporation, the US paper group, and Ferruzzi of Italy, Jamont was formed when the two original shareholders and Nokia of Finland decided to pour their paper businesses into one company.

Ronald Singer has three important target areas

In January 1990, says Mr Singer, "we had no legal existence, we had no employees, we had no bank account, we had nothing. We borrowed offices from shareholders and subsidiaries, and we began from zero to create a European entity."

From a manufacturing point of view, the Jamont companies were not an obvious candidate for "Europeanisation". There is little benefit in transporting low-density, low-value products like tissues or paper plates across long distances, so there was no need to amalgamate plants. Existing facilities, from Finland to Turkey, stayed put, manufacturing for distinct national markets.

Instead, Mr Singer and his multinational staff concentrated on developing a central administration, which could handle strategy, improve productivity and secure financing for the "new" company.

In this last area, Jamont has moved fast. Last year, the group raised a Ecu400m syndicated loan as security for an aggressive investment programme. Some Ecu500m will be spent by the end of 1993.

The biggest benefit for the subsidiary manufacturers, Mr Singer believes, has been the access to developing technology.

"None of the companies had been able to support a substantial technology effort on their own," he says. James River – which, together with Cragnotti & Partners, the Italian investment group, still owns 86 per cent of Jamont – operates an open-door policy with the group on technology licensing.

In its turn, Jamont is ploughing funds into developing technology for "de-inking" fibres, improving the quality of paper produced, and enhancing the ability of machines to convert large paper rolls into more manageable small rolls. Mr Singer claims that Jamont technicians are already bettering the work done in James River laboratories.

For the future, Jamont has three important target areas. Mr Singer wants to fill in the gaps in the group's coverage of western Europe – in particular, Germany, which is dominated by the tissue company PWA, and where another rival, Kimberly-Clark of the US, is trying to expand.

Looking further ahead, the group sees possibilities in eastern Europe and – beyond 1994 – it may even start to expand into related areas of business outside the core tissue operations.

Much depends on economic developments. As head of a company that has built itself on firm European foundations, Mr Singer has been profoundly disappointed by the unexpected turmoil in the European exchange rate mechanism. Now, he says, his staff have to spend valuable time worrying about European currency fluctuations, which he believed were a thing of the past.

In general, however, he says Jamont will continue to benefit from the stability of its underlying business: "Bad times for us means when markets are growing at 1 or 2 per cent, instead of 4 or 5 per cent."

That apart, Mr Singer has one principal goal if he is to seek further funding or a stock market flotation: to convince backers that this Italo-American-Finnish-owned Dutch holding company with a Belgian headquarters is not a European corporate aberration, but the shape of things to come.

Andrew Hill

Regional report: the **Far East**

Indonesia leads the drive for expansion

THE FAR East is becoming accustomed to being the exception to the rule. While Japan's economy has suffered from the global recession, many countries in Asia continue to grow at 5 to 10 per cent a year. This has led to a burgeoning demand for pulp and paper in the region, and the industry is set upon expansion.

A clutch of figures tells the story: Malaysia's paper industry is expected to average 27 per cent growth between 1991-1995; Thailand's paper demand in 1990 grew 19 per cent; Indonesia's paper capacity is expected to grow by over 30 per cent this year to 3.2m tonnes.

The far eastern picture, however, is not just one of growth, but of gradual change, the driving force of which will be Indonesia, the world's largest archipelago with over 13,000 islands and a 185m population.

Indonesia's forests, estimated at 144m hectares, are second only in size to Brazil; and, with a per capita income of $600 a year, the country is labour-competitive. Labour costs, which account for about 22 per cent of Indonesia's total pulp production costs, are one third of Thailand's and Malaysia's, and one tenth of Taiwan's.

One estimate is that only 5 per cent of Indonesia's forests, turned into plantations, could supply a third of the world's pulp demand

However, a shortage of international capital, and a decision last year by the government to set ceilings on offshore borrowing, has made financing large pulp projects difficult. Officials of the Indonesian Pulp and Paper Association, estimate that at least seven pulp projects, with a planned total output of 1.7m tonnes, have recently been cancelled or postponed.

As Miss Sian Hansen, pulp and paper analyst at Crosby Securities, explains: "Virgin tropical fibre-pulp has taken a tumble in price, and the plants just couldn't be economical in this kind of world market."

Per capita paper consumption: SE Asian countries (kg)

	1989	1990	Pop. 1990 (m)
Thailand	17.1	20.1	56.7
Malaysia	42.6	47.7	18.0
Indonesia	6.0	7.5	182.6
Philippines	9.3	9.4	62.4
Singapore	190.5	187.0	2.7

Five projects, however, with a capacity of 3.4m tonnes a year of pulp are in the pipeline.

Sinar Mas Group, Indonesia's second largest conglomerate, is installing new pulp plants at its Indah Kiat and Tjiwi Kimia subsidiaries, with capacity of about 2,600 tonnes a day, at a cost of about $1bn.

Industry officials say Barito Pacific plans a plant of 1,500-2,000 tonnes of pulp a day in South Sumatra, to be operational by 1995, at a cost of up to $1bn; Mr Mohamad Hasan, a wealthy logging concessionaire, is planning a plant of similar size in East Kalimantan; and Indorayon has designs for a 1m tonne a year pulp plant in Riau province.

Mr Gus Nilo, managing director of Sinar Mas, believes Indonesia's long-term prospects are bright, and explains that "the issue is volume. If you cut down all the forests in Vietnam, it would be unable to supply China."

He estimates that only 5 per cent of Indonesia's forests need be turned into plantations for one third of the world's pulp demand to be supplied.

Whilst Indonesia's potential in the Far East is unrivalled, it has been slow to exploit its advantage. Miss Hansen estimates that Indonesia is at least 10 years behind Brazil in technology and the development of plantation forests, of which only 326,000 hectares had been planted by the end 1991.

Indonesia's underlying competitive advantage makes its emergence as a key player in the market almost inevitable. "Korea, Taiwan and Japan have pulp mills, but they import the wood. Their wood costs are about four times ours," explains Mr Nilo.

While Brazil remains the cheapest producer, Indonesia should be able to cut costs further as more plantations come on stream, boosting productivity and pulp quality. Miss Hansen forecasts that the typical catchment area for a 200,000-tonnes-a-year pulp mill in Indonesia will fall from a current 32,000ha toward the 20,000ha of Brazil.

Indonesian companies are already looking toward greater regional integration. Sinar Mas has taken a stake in a paper mill in Ling Po, in southern China. There are plans to invest up to $200m to expand the plant, the pulp being supplied from Sinar Mas's Indonesian operations.

As the industry matures in the Far East, officials believe Indonesia will capitalise on its cheap pulp production to take a greater share of the region's growing paper market.

While Brazil remains the cheapest producer, Indonesia should be able to cut costs further as more plantations come on stream

As with pulp, that change is likely to be gradual. In 1990, Japan's paper and board demand totalled 28.2m tonnes, about half the region's consumption. Indonesia is almost alone in the region in producing more paper than it consumes, but net exports in 1991 were only 270,000 tonnes.

Although this was a fourfold increase over 1990, further high growth will be constrained by domestic demand, a low 7.5kg in 1990, which is rising by over 10 per cent a year.

William Keeling

Regional report: **Latin America**

Cheaper land, faster trees

Eucalyptus grows faster in the sunshine of Brazil

THIS YEAR has been a milestone for Latin America's pulp and paper industry. With Aracruz, the world's largest eucalyptus pulp company, completing a huge expansion project in Brazil, and the start-up of three new mills in Chile, the region is poised to become the world's leading low-cost supplier of cellulose.

The growth of Latin America's pulp industry confirms a world trend to move to low wood-cost areas. Land is cheap in both Brazil and Chile, generous government subsidies encourage reforestation, and trees grow faster there than almost anywhere else in the world.

Brazil has some 1.5m hectares of eucalyptus plantations, which can be felled after five years, compared with 10 years in temperate climates. Most of Chile's 1.4m ha of man-made forests are planted to Radiata pine, which matures after 15 years compared with 30 years in New Zealand, 40 in Sweden and 60 in Canada.

As a result, Finnish consultants Jaakko Poyry Oy expect Latin American mills to squeeze out high-cost producers in the northern hemisphere and contribute just under half of the world's increased production of cellulose – estimated at 9m tonnes – towards the end of the century. With world demand for pulp growing at an annual rate of 1.4 per cent, Jaakko Poyry expects Latin America to command 30 per cent of international trade by the year 2005. At present, it supplies about 15 per cent of the world trade in pulp.

Chile is well-placed to supply the fast-growing markets of Japan and south-east Asia, while Brazil's strongest markets are in Europe. In Brazil, the pulp-and-paper sector appears to have escaped the general malaise and economic chaos afflicting other industries. Exports are growing so vigorously that neighbouring Argentina was forced to introduce import quotas earlier this year to protect its domestic producers.

Brazil's papermakers export about a quarter of their annual production of 5m tonnes. Pulp producers sell almost 40 per cent of their 4m tonnes abroad. Both exports are up by 20 per cent this year and are expected to earn $1.5bn.

Aracruz became the world's largest eucalyptus pulp company in 1993, after completing a $1.2bn expansion programme at its mill in the state of Espirito Santo, north of Rio de Janeiro. With capacity at 1.2m tonnes a year, Aracruz can now supply half of Brazil's short-fibre pulp, which is used for quality paper and tissues, and 24 per cent of the world's total. The company, owned by BAT's Brazilian affiliate Souza Cruz, Lorentzen and Banco Safra, is also investing $100m to convert from chlorine to the more environment-friendly oxygen bleaching.

Companhia Vale do Rio Doce (CVRD), Brazil's largest mining conglomerate, is also investing heavily in the pulp-and-paper sector. Bahia Sul, a joint-venture with Brazil's top paper manufacturer Suzano, started up this year with a capacity of 500,000 tonnes. CVRD is also planning to double capacity at Cenibra, its 350,000 tonnes-a-year pulp mill in Minas Gerais. Its partners here are a consortium of Japanese papermakers. Mr Marcos Montagna Carramota, CVRD's forestry industry chief, says the company plans to start a new pulp mill every two years, to reach a capacity of 2.5m tonnes by the year 2000.

Brazil's economic instability, however, is a serious setback for some $5bn of pulp and forestry projects. Pulp manufacturers complain that the government lacks a clear industrial policy, while inflation and exchange-rate uncertainties are forcing them to postpone projects until the end of the decade. "If Brazil solved its economic problems, it could wipe out all other short-fibre pulp producers in the world," says Mr Eladio Susaeta, an international consultant based in Santiago.

Chile's pulp industry also took a leap forward this year, with the start up of three new mills which have more than doubled the country's productive capacity to 1.5m tonnes a year. As a result, exports are expected to earn more than $900m in 1993. Although Chile is now experimenting with eucalyptus, its comparative strength lies in the production of the more resistant long-fibre cellulose from Radiata pine.

Of the three new mills, the largest is Arauco II, a $600m joint-venture between Brierley Investments of New Zealand and the Angelini group of Chile, which will produce 350,000 tonnes a year. Compania Manufacturera de Papeles y Cartones (CMPC), Chile's largest paper manufacturer, inaugurated a kraft mill in partnership with Simpson Paper of the US, which will produce 315,000 tonnes of bleached cellulose a year.

Santa Fe, owned by Scott Paper of the US, Citibank and Royal Dutch/Shell, is the only eucalyptus mill in Chile. It started production last year, but has been plagued by a shortage of raw material. Forestry experts say Santa Fe is having to venture up to 400km away from its site in southern Chile to obtain supplies of eucalyptus.

The three new mills are putting pressure on Chile's forestry resources, as two-thirds of the 1.4mha of planted pine are less than 15 years old. Mr Susaeta believes the supply crunch will last another two to three years. Other forestry experts believe Chile will have to double the acreage under man-made forests to meet expected demand.

The dramatic growth in Chile's forestry industry has also exposed some serious infrastructure bottlenecks. Roads in rural areas are poor, and delays at congested ports are adding to export costs.

Compared with Brazil and Chile, Argentina's pulp and paper industry is backward and inefficient. Almost half of the country's installed capacity lies idle. Pulp and paper production, which totalled 900,000 tonnes last year, is mainly for domestic consumption. Exports earned only $60m in 1991.

Leslie Crawford

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Britain's local government is preparing for a leaner future. **Chris Tighe** looks at one authority's experience

Tiers are shed as councils cut back

In his Wallsend town hall office, North Tyneside council leader Brian Flood is pouring tea from a big, canteen-style metal teapot into a mug emblazoned ANC Women's Section.

It is the sort of scene which has confirmed Labour-controlled North Tyneside's place in Conservative ministers' demonology of combative, left-wing local authorities.

But between sips of tea, Flood is explaining how the council's restructuring is wiping out layers of bureaucracy, making the organisation consumer-orientated, empowering its staff to meet service delivery targets and eliminating around 1,100 jobs.

Local authorities throughout Britain are undergoing profound change brought about by financial constraints, shifting social trends and central government-imposed policies like compulsory competitive tendering. But few restructurings are carried out amid such financial crisis.

North Tyneside is not only scrapping its departmental structure and toning down its previously confrontational approach to Tory central government, it is simultaneously deciding how to make cuts next year of £20m – 15 per cent of its budget – shedding in the process at least one in eight jobs. And it is doing all this in a matter of weeks.

The restructuring is partly a response to financial duress; council leaders believe no more cuts are possible under the present structure without eroding basic services.

The council also believes the delivery of flexible quality services demanded by the public conflicts with the conventional local government structure of departments, each jealously guarding their roles and budgets. "The present culture, which has to change, is one based on secretive professionalism which has erected barriers around each individual part of the council's activity", says Flood.

Within North Tyneside's "fossilised" departmental structure there are as many as 16 layers between directors and employees. Flood does not suggest that the intervening layers have been idle. "Everybody's been working hard; they're all answering each others' bloody questions."

The present system has also stifled communication. "It might start off as broad as the Tyne but it comes through like a tap dripping."

Nor has there been any forum where heads of department meet councillors. Until now, says Flood, local government has been designed to keep elected members out of the way. "That's why it's failed."

The restructured North Tyneside council will have six executive directors who will meet each week with the leader and senior councillors, forming, in effect, a management board. One side-effect of the new structure is that ruling group councillors will gain more power to ensure that committee decisions are implemented.

Present legislation stipulates that councils must appoint directors covering areas like education and social services. North Tyneside's executive directors will bear the titles required by law, but none will be responsible for the day-to-day running of services. That job will fall to 16 heads of function, under whom will be 45 senior managers, 150 managers, a lower tier of first-line managers – and then grassroots employees.

"We want a flat structure," says Flood. There will be no more than three layers between heads of function and the people on the ground.

Heads of function will be set tough targets for service delivery; these may include annual budget reductions for core services so they can introduce pilot schemes to explore new areas of consumer demand. Performance related pay is under consideration.

The reorganisation, to be concluded by Christmas, means that all 9,500 employees have had to apply for posts at or around their current level. So far the top three levels have been appointed. The spotlight is now on the lower managerial tiers where job cuts will be heaviest.

Compulsory redundancies, anathema to the council until now, are inevitable although 1,000 staff have left voluntarily in the last two years.

The unions are sympathetic to the council's budget problems and do not oppose the restructuring in principle. But Nalgo, the white collar public service workers' union which expects 500 of its 3,000 members at the council to lose their jobs, is unhappy at the distribution and size of the cuts. It is holding a one-day strike tomorrow and threatens further action.

Branch secretary Trevor Johnston argues that: "There's this great myth that there are all these layers of managers doing nothing. It might have been true 10 years ago. But there's been substantial delayering over the last five years."

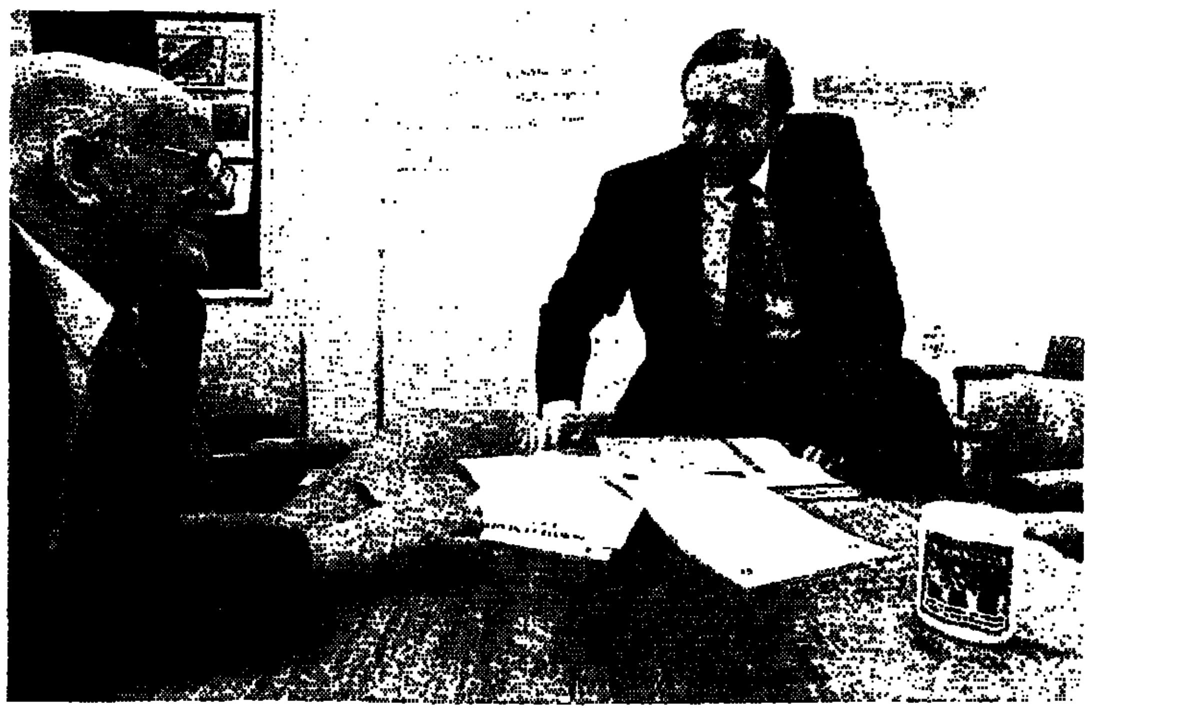
Such is the scale of staff cuts, he argues, that some managers in the new structure may face an impossible task.

He complains that the reforms have encouraged an "opportunity culture", with some employees gaining promotion at others' expense.

Nalgo is worried that restructuring is distracting attention from heavy job losses. Conversely, Ian Gordon, Conservative opposition group leader, fears that the service cuts which may result from the council putting its finances in order may cloud the public's perception of restructuring.

Although Gordon criticises some appointments as "blatantly political", both the restructuring and the Labour group's new pragmatism have Tory support. "We welcome this conversion on the Damascus road," he says.

Still, tough battles lie ahead. But Flood, topping up that tea mug, is bullish: "We think in three years' time we'll set the standard for the way councils operate."



Wiping away layers of bureaucracy in North Tyneside: Brian Flood (right) with deputy council leader Ernie Dalziel

How to take a team into the premier division

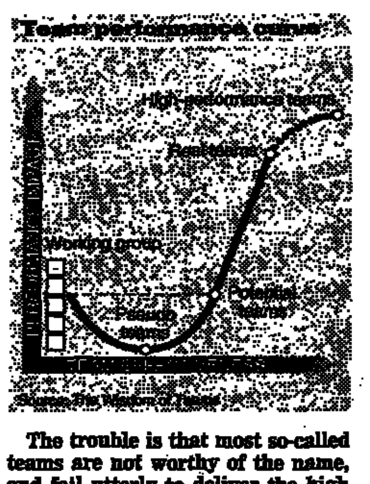
Christopher Lorenz assesses a new study on improving corporate performance

You may be on your way up the executive ladder, or have reached the top. You may be languishing in middle or junior management. You may be a technical specialist – or another type of "professional" – with no managerial role at all. You may be on the shop floor or the service front line.

Regardless of your job and status, you are almost certainly part of, or surrounded by, the most common organisational form in modern management – a team. Or several.

"So what?" you may ask. Everyone, except a player of individual sports, knows that teamwork is the best way of motivating people and improving their performance.

The objective may just be to cut costs and boost efficiency, or, more commonly these days, also to respond more quickly to customer needs and competitive challenges. It is no coincidence that most "model organisations" – whether they are christened "horizontal", "networked", "non-hierarchical" or "clustered" – are based fundamentally on teams.



The trouble is that most so-called teams are not worthy of the name, and fail utterly to deliver the high performance levels of which real teams are capable. They are often either just working groups or task forces, which though usually seen as synonymous with teams, are actually very different animals.

At best, they are a third type of species: potential teams, which try hard to improve their performance, but lack clarity about purpose, goals, or joint work-products, as well as the discipline to hammer out a common working approach. Nor have they established mutual accountability.

At worst, they are pseudo teams: collections of people concerned about togetherness, not performance, and so distracted by their dealings with each other that their communal performance is less than the sum of their individual parts.

The chart (left) shows the yawning gap between their output and that of high-performance teams, in which members are deeply committed not just to team performance (as in real teams), but also to each other's personal growth and success. These are just a handful of the conclusions from an unusually thorough study of teams – real and pseudo – which has just been published as a book, appropriately titled The Wisdom of Teams.

As well as challenging much conventional wisdom about teams, the book is full of advice about how to organise proper – and properly effective – ones. It draws examples from manufacturing companies such as US General Electric, Hewlett-Packard, Kodak, Motorola, and Procter & Gamble, as well as from service organisations such as the Burlington Northern railroad, the Deloitte & Touche accounting firm, Prudential Insurance of America and even a high school basketball team called The Killer Bees.

The book also provides a plethora of case studies of team inadequacy – from slight to complete – although most of the company names have had to be disguised.

In order to write the book, its co-authors Jon Katzenbach and Douglas Smith, who are leading consultants at McKinsey & Co in the US, studied the workings of more than 50 teams (actual and so-called) in 30 companies. Their findings include:

- Top teams are the most difficult to make effective.
- A demanding performance challenge, set within the sort of performance culture exemplified by Motorola, tends to create real teams far more effectively than do team-building exercises, special incentives, or team leaders with ideal profiles.
- The disciplined application of "team basics", including size, purpose, goals, skills, approach and accountability is often overlooked.
- Hierarchy and teams go together much better than is appreciated by people who see teams as a replacement for hierarchy.
- Team performance opportunities exist in all parts of the organisation, rather than just a few, as most companies think.
- Most organisations prefer individual, over group or team, accountability.
- Teams naturally integrate short-term performance with longer-run learning.

Katzenbach and Smith define real teams as more than just "an extremely dedicated group of people working together to accomplish something of great importance to themselves". That is the definition of a group, they argue.

By contrast, a team should be thought of more precisely as "a small number of people with complementary skills who are committed to a common purpose, performance goals and approach for which they hold themselves mutually accountable".

Each part of this definition – or what Katzenbach and Smith call "this essential mode of discipline" – requires close attention, they say. For instance, "complementary skills" covers three categories: technical or functional expertise; problem-solving and decision-making skills; and interpersonal skills.

The duo stresses repeatedly that a focus on performance and accountability – not on chemistry, teamwork or good communications – "is what makes teams happen".

* *Published in US by Harvard Business School Press, price $24.95. In UK by McGraw-Hill, price £21.95.*

CONSTRUCTION CONTRACTS

Supplying mechanical services

HOW ENGINEERING SERVICES has been awarded three mechanical, electrical and plumbing services contracts totalling some £16m.

A £5.7m order for Glaxo research campus at Stevenage, Hertfordshire, has been won for the microbiology laboratory and biology node.

The second contract is for the BAT project test Phase I at Southampton which is worth £6.9m.

The third contract, worth £3.3m, is at Heathrow Airport for services to the base building for the new combined operations centre.

Mixed batch

Walsall-based KENDRICK CONSTRUCTION has boosted its activity in the West Midlands by winning nearly £10m of new work.

Heading the list are two contracts for Birmingham City Council, totalling £6m, to be undertaken by the company's repairs and maintenance division.

It is also carrying out a £1.5m extension and new build project at Colton Hills School for Wolverhampton Metropolitan Borough Council.

The design and build division has secured a £1.5m office block development in Droitwich for the Crown Prosecution Service.

Bypass project

KIER NORTH EAST has been awarded the £4.6m contract for construction of the A19 Easingwold bypass in North Yorkshire by the Department of Transport.

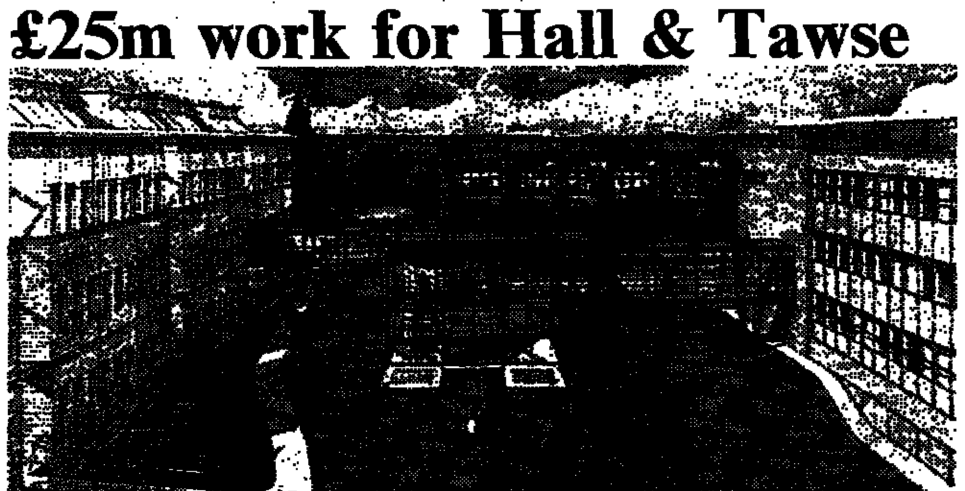
The 2.1 mile long single carriageway road will incorporate two new bridges to carry roads over the bypass.

Council estate

FITZPATRICK BUILDING has been awarded the Phase IV £1.08m external refurbishment contract at the White City Estate, Hammersmith, for the London Borough of Hammersmith and Fulham.

The contract will last 25 weeks and the works include replacement of windows, concrete repairs, security door entry systems, new entrance lobbies and bin stores.

£25m work for Hall & Tawse



An artist's impression of link building currently under construction for IBM at Hursley Park

HALL & TAWSE, the construction division of Raine Industries, has been awarded contracts worth £25m.

In the Midlands, Hall & Tawse Western has won a £2m contract from Dudley Metropolitan Borough Council to build a primary and nursery school at Brierley Hill, which will include a two-tier hall incorporating music and library amenities above.

Hall & Tawse Southern has gained a £1.2m order for a refurbishment project at RAF Benson in Oxfordshire and a contract for IBM to convert the basement of a former nine-storey office block into a conference and meeting room centre.

Above ground the basement will be "roofed" over and landscaped, with the central glass atrium and glazed linked walkways, which connect at first floor level to surrounding buildings, being visible.

In the health sector Hall & Tawse Scotland has won a £1m contract at the Falkirk Royal Infirmary to build a single-storey 10-bed admissions unit, and a separate single-storey assessment unit, while in the retail area, Hall & Tawse Eastern has gained work from Boots to fit out two Children's World stores.

A16 Spalding bypass development

BIRSE CONSTRUCTION has won a number of building and civil engineering projects which include the A16 Spalding bypass, worth £22.6m, for the Department of Transport.

The contract is for the improvement of 18.5km of the A16 between Spalding and Sutterton in Lincolnshire. Work starts early in 1993 with a programme period of two and a half years.

The company has also been awarded the A568 Widnes eastern bypass, worth £14.9m, also from the Department of Transport. The 6km dual carriageway will be started immediately and will be completed in two years.

In Scotland the company has received its first major award from Aberdeen Harbour Board for a multi-berth facility, value £8.5m over an 11-month contract period.

The project is for the formation of berthing facilities by piling inland from existing quay faces, major dredging and excavation plus ancillary works including concrete paving, transit shed and office facilities.

A building contract for the Ministry of Defence has also been won for an RAF Hospital at Lakenheath in Lincolnshire, worth £10.9m, for completion in 112 weeks with a start in January.

The contract covers an operating hospital with full support service units and includes refurbishment of existing facilities.

Other awards include an extension to a school in Leeds for Leeds City Council, value £4m, a river bridge over the River Soar and roadworks on the A563 for Leicestershire County Council, worth £2.1m.

Medway towns road relief scheme

EDMUND NUTTALL has won a highway infrastructure contract from English Industrial Estates Corporation (English Estates) as part of its overall Chatham Maritime development on the Medway in Kent.

The £6m project, officially entitled the Primary Highway Network Contract, is a key element in the Medway towns northern relief road scheme linking the commercial centres of Chatham, Gillingham and Rochester and providing direct access to Chatham Maritime from the motorway network.

When completed, the scheme will provide a dual carriageway north-south link, some 650 metres in length. Two roundabouts will serve existing developments and open up further sites for development at Chatham Maritime. Central to the scheme is a grade separated roundabout to link the Medway tunnel being constructed to the west, with the Gillingham northern link road that will be developed to the east.

Twin 22 metre span reinforced concrete bridges will carry the Primary Highway across the tunnel approach cutting. This 125 metre long trough is to be excavated to a depth of 10 metres within secant piled walls.

Also included is a 0.2km dual carriageway western link road. Ancillary works also include provision of a pumping station.

PEOPLE

Around the world to graze at Geest

Kevin O'Donoghue (left), previously managing director of Phileas Fogg snacks, has had his appetite whetted by Geest's "very big plans for added-value convenience foods" and has taken over as managing director of the newly-formed subsidiary Geest Convenience Foods.

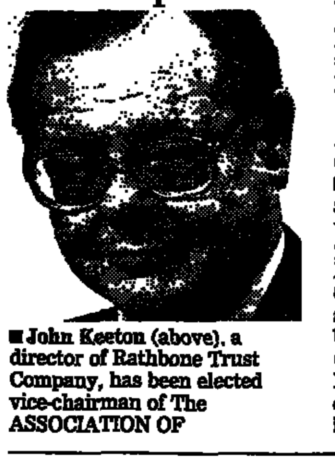
The fresh produce and prepared foods group has identified a number of chilled markets where it has been investing heavily; it has recently spent £10m on what is supposed to be the most sophisticated pasta-making production facility in northern Europe.

Following two acquisitions in the past three years, Geest is the UK's leading supplier of chilled pasta and number two in chilled pizza. The incoming managing director's ambition is to expand convenience foods, via organic growth, acquisition and partnership, tenfold over the next five years.

O'Donoghue, 42, joined Phileas Fogg in 1988, brought in by the founders of Consett-based Derwent Valley Foods who had, in 1982, started what became a high-profile start-up in north-east England. Very successful in developing snacks such as tortilla chips and Californian corn chips, the three founders wanted to devote more time to business interests outside the UK, and employed O'Donoghue as managing director of Phileas Fogg. He claims to have doubled turnover there, trebled profits and "grown the brand to a must-stock item for most of the multiples".

Previously, O'Donoghue had been president of United Biscuits in Brazil, setting up a joint venture biscuit company with a Brazilian flour-milling organisation. He describes himself as having previously "done the rounds" at United Biscuits, which he joined in 1973 from Powell Duffryn.

Bodies politic



■ John Keeton (above), a director of Rathbone Trust Company, has been elected vice-chairman of The ASSOCIATION OF CORPORATE TRUSTEES.

■ Henry Gewanter, a director of First Financial, the financial pr and marketing consultancy, has been elected a fellow of the CHARTERED INSTITUTE OF BANKERS; he lectures on investment and is an assistant examiner in the subject.

■ Lord Carter, opposition spokesman on agriculture in the House of Lords and president of the British Institute of Agricultural Consultants, has been appointed chairman of the UNITED KINGDOM CO-OPERATIVE COUNCIL; he succeeds the founding chairman Keith Brading who becomes honorary life president.

■ Bo Christensen, director of the Danish Film Institute, has been appointed director-general of the EUROPEAN SCRIPT FUND from next March.

■ Gordon Rankin, head of brands & products and deputy director, personal sector marketing, has been appointed chairman of DELTA MEMBERS GROUP for a one-year period.

■ Gordon Dunlop has retired from HI-TEC SPORTS.

■ John Axon has been promoted to director of operations of the PERFORMING RIGHT SOCIETY.

Robb steps back from Aberdeen Trust

George Robb, one of the founders of the small and aggressive fund management company Aberdeen Trust, is stepping down as executive chairman, but remaining on the board as a non-executive director.

The group, which has suffered, particularly earlier in the year, from the weak dollar, has seen its share price drop from 60p in March 1991 when it joined the stock exchange, to a low of 24p this year.

Currently with around £1.6bn of funds under management, the company's transaction-driven expansionist strategy has not been without its detractors. "George Robb has felt for some time that what interests him most is building companies," says chief executive Martin Gilbert, "whereas now we have entered a consolidation phase. We need to pay attention to becoming more client-orientated."

Whereas the company has been strong in Far Eastern emerging markets and UK smaller companies, it has lagged in other areas, notably continental Europe. Another catalyst for the change in emphasis has been the purchase of Century life assurance group in September, which added around £450m in new funds to manage as well as affording access to a direct sales force. "It is going to be an enormous amount of work integrating Century," Gilbert believes.

Robb, 50, and Gilbert, 37, founded the business in 1983 as a management buyout from a firm of Aberdeen solicitors, Brander & Cruickshank, where Robb was a partner in the investment management department and Gilbert was his assistant. Robb took over as executive chairman at the time of the stock market listing. "Since becoming chairman, I found there was a decreasing amount to occupy me. It was a miscalculation on my part," Robb, who was previously chief executive, now admits. "It was a good time to make a break."

He is looking for other opportunities, not necessarily within fund management. Among a number of other outside directorships he is on the board of Aberdeen Petroleum, a USM company which he helped establish in 1981.

Meanwhile, Angus Pelham Burn, 61, takes over as non-executive chairman. A well-known figure in the Scottish financial community, Pelham Burn has been a director of Aberdeen Trust since 1985. He is also a non-executive director of the Bank of Scotland and a member of Grampian regional council.

Alastair Ross Goobey, James Capel's chief investment strategist and author of one of the livelier weekly investment newsletters, has decided to practice what he preaches. Next month he takes over as chief executive of PosTel Investment Management, Britain's second biggest pension fund manager.

Goobey, 47, is only the third chief executive to look after the £20bn of pension fund money of British Telecom and the Post Office. He takes over from former Bank of England man Alan Threadgold, who in turn took over from Ralph Quartano.

Although Ross Goobey has made his name recently as James Capel's investment guru and a special political adviser to the Chancellor of the Exchequer, he has earned his spurs as fund manager. Before becoming a stockbroker, he had been a director of Geoffrey Morley & Partners, independent pension fund managers, and before that had managed the Courtaulds pension fund. Although part of his job at PosTel, which has 160 staff, will be administrative, Ross Goobey will also be director of securities investment.

Sculpture and architecture

Life breathed into stone

Colin Amery admires the work of Eric Gill

If you feel the need before Christmas to escape from crowded festivities, I thoroughly recommend some calm moments at the Barbican Art Gallery.

I went to see the exhibition of sculpture there by Eric Gill (which runs until February 7) with some reservations, a lot of prejudiced, and muddled preconceptions about Gill's life and work. But this exhibition does what a good exhibition should: it both delights the eye and stimulates the mind. It also presents with great clarity the personality of the artist within the context of his creative life.

Much of Gill's figurative sculpture is hard to see because it is either in private collections or is permanently fixed to buildings. This is the first retrospective of his figurative sculpture – and it is no mean achievement to have assembled nearly 50 important works, mainly of the period 1910 to 1930. They are beautifully displayed in a way that brings out the direct quality of Gill's work. He made stone breathe quietly and many of these works exude a tranquil life of their own.

I also braved the architectural terrors of the Barbican, because I believe that there is no real future for architecture as an art that can inspire and nourish unless its practicioners have a sympathy for all the visual and plastic arts.

I am permanently baffled by the separation between architecture and the fine arts. There is still very little communication between architects and artists in educational establishments, and there have only been marginal improvements in the last decade in the commissioning of public art.

The official artistic bureaucracy wastes millions on schemes like "per cent for art", which sees art as some kind of expendable "add-on", not as an intrinsic part of any creative initiative. understood that it is possible for fine art – which embraces the irrational, imaginative and sensual – to be a crucial part of everyday life. His sculptures for the BBC, London Transport and his war memorials have a sense of propriety and rightness where they are. He understood architecture and its relationship with sculpture – perhaps because his creative life began as an apprentice to an architect.

When he was 18, Gill joined the office of W.D. Caroe, the leading church architect of the time and from whom Gill learned the disciplines of architectural drawing. In the transitional years of the 1900s style was as much a matter of debate as it is today. Caroe, who was often thought of as a rather dull gothicist designed in a whole range of styles.

Gill soon became fascinated by the theories of William Morris and John Ruskin and absorbed from them some of his early ideas about craftsmanship, labour and art. He decided not to attend evening classes in architecture, but to study the art of lettering under Edward Johnston at the Central School – and to learn practical masonry. These two skills flourished and in 1903 another architect, Edward Prior, gave Gill his first lettering commission. He invited him to design the lettering for the new medical school in Downing Street, Cambridge. So it was through architecture and lettering that enabled Gill to become a freelance artist craftsman, and to put some of his theories into practice concerning the sacredness of work dedicated to the service of art.

By 1909 Gill was beginning to make figurative sculpture and felt that he had made a most important discovery. He wrote: "It was like a new alphabet – the word was made flesh." Gill's method of working was to carve directly in stone. He would not consider modelling in clay or employing the help of other craftsmen – he cut directly into the stone and was probably one of the first sculptors in England to work in this way since the Middle Ages. It is this sense of directness that is so evident at the Barbican exhibition.

The remarkable nature of Gill's talent as a sculptor was soon recognised and he secured an important commission as early as 1913, when he was asked to carve the Stations of the Cross for the new Roman Catholic cathedral at Westminster. The pencil, ink and water colour drawings in the exhibition are no substitute for going to Westminster Cathedral to see the full size carved originals, but they are fascinating as working drawings squared up for transfer to the stone. As drawings, they have that heraldic, almost diagrammatic, quality that is also present in the stone reliefs. For such relatively early work they are extraordinary and potent icons.

The mixture of eroticism and religious faith is a thread that runs throughout Gill's work and life. We all learned more than we really needed to know about his communal attitudes to sex in Fiona MacCarthy's biography of Gill. What is surprising – and wonderful – about this collection of sculptures is that they exist with lives of their own – quite apart from all the hypocrisy of Gill's life – as very pure works of art of great integrity. Even "Ecstasy", Gill's most sexually obvious work (which was owned by the same collector who commissioned Rodin's "The Kiss") has more of a moment of wonderment about it than any sense of pornography.

The two major architectural works, "Prospero and Aeriel" for the BBC's Broadcasting House in London, and the "Four Winds" for London Transport's headquarters, are well known. It was more interesting to see the drawing for the huge relief for the headquarters of the League of Nations in Geneva (1935) on the theme of the "re-creation of man", and the actual Portland Stone relief from the Midland Hotel (1933) in Morecambe on an Odyssian theme – which is wild and spirited and curiously scaled.

We need more artists like Gill, prepared to work with architects and to be sympathetic to the idea that every man – especially the craftsman and builder – is also an artist. Sadly, we are today miles from that idea, as most building is merely mechanical assembly of manufactured parts. Gill shows the intense, creative fulfilment of working with the hand and the eye. This exhibition quietly and carefully illuminates that idea.

An early stone relief by Eric Gill: 'The Boxers', 1913

Opera/Max Loppert

Billy Budd

Opera North tackles this season its first *Billy Budd*. This difficult, dark-spirited, musically magnificent opera almost always brings out the best in the companies that take it on. Rarely, however, has it received a performance of such raw, angry power as Friday's at the Leeds Grand Theatre.

The production, which comes from Scottish Opera, was first shown in Glasgow in 1987. Then, it was electrifying: now Graham Vick and his associate Paul Maloney, matched every inch of the way by the conductor Elgar Howarth and the Opera North orchestra and chorus, have rendered it still tauter, and exposed the themes of the Britten-Forster-Crozier collaboration to a still harsher theatrical light.

Budd emerges here, as it did in Tim Albery's very different 1988 ENO staging, enriched and strengthened: its combination of grand opera, historical epic, domestic tragedy and male-voice symphony reverberates with startling new insights, new illuminations.

Vick treats it as a study in vicious social repression of naval serfs by their overlords. The single set (a superb feat of design by Chris Dyer) is also a single dominating image – a ship seen in transverse section, layered in deck levels, pivoted on a central mast, and contained like a globe or crucible. The "whole world" of Captian Vere's floating monarchy (or slave ship, which is what it is) is ceaselessly evoked in the action – and, with it, the hideous violence that runs through the drama like an open sore.

Few opera performances have so fully caught a sense of community, while at the same time exposing it to such keen-eyed "political" scrutiny: how horribly vivid yet truthful the depiction of sneaks, spies, bullies, betrayers, even Dansker's backing-away from Billy at the moment of discovering he is Claggart's marked man.

The erotic subtexts of the opera are not disguised; neither are they forced into undue prominence. Vick's licence in presenting a dressing-gowned alter ego of the old captain, constantly haunting the action like an agonised conscience, encourages a constant – but again, never crudely underlined – consideration of the interaction between motive, impulse and consequence. If this encourages one to view the captain's epilogue with a touch of irony, that seems only fair. It is, after all, Vere's equivocal character that affords the opera its focal point.

The cast is of superlative quality from top to bottom. On opening night Jason Howard's Billy was suffering a severe throat infection; he dealt with it expertly, and brought to the part a free physicality, a credible earthiness and volatility of temperament which I have not encountered before. Nigel Robson's Vere lacks tenor volume but not subtlety of utterance: he is a singing-actor of three-dimensional eloquence. John Tomlinson, principal revenant from the 1987 Scottish Opera cast, is the Claggart of our day, certainly the most strongly voiced and roundly drawn of my experience.

This is one of Opera North's most impressive achievements – not smoothly palatable Festive Fare, perhaps, but wonderfully relentless in its grip.

Grand Theatre, Leeds: in repertory until January 18, then on tour to Nottingham, Birminghan and Manchester.

Theatre

The Witches

On one side of St Martin's Lane you can see the opera *Hansel and Gretel* (at the Coliseum). On the other you can see *The Witches* (at the Duke of York's). It is amazing how much the two works have in common, especially in this particular pair of stagings. A witch is not just a crone living in the faraway depths of a wood any longer. Some children this Christmas will be taken to the one, some to the other. An enterprising parent might do well to take their children to both.

The witches in Roald Dahl's story do not bake children or eat them – they turn them into mice. And the best fun of seeing *The Witches* as a play comes in watching these transformations – how are they done? – and then in watching the boy-mice adapting to their new circumstances. In fact, the mice scenes resemble another show opening this weekend, Frederick Ashton's *Tales of Beatrix Potter*; the opening of the play's second half reminds me of what Ashton said to his mice-dancers "Wouldn't it be lovely to have a tail, think of all the things you could do with it, you could pick things up and carry them, you could skip rope with it . . ."

Otherwise, Dahl's story holds an audience simply because he tells a story so well. It does not have the mythic power of the Grimms' fairy-tale, but its modern liveliness and its whimsical philosophical touches have their own impact and wisdom. Boy learns from Grandmother that the world is full of witches; and to us, watching, the witches (as in Humperdinck's opera) are both alarming and absurd. Boy and Grandmother save the children of England from the witches; but Boy himself has to stay a mouse, and learns how to cope with that.

The adaptation and staging are by David Wood, and they proceed at a more plodding, heavy-handed pace than last year's staging of *The B.F.G.*. Karen Briffett plays Boy with over-wide eyes and a shrill voice about half an octave too high, but is otherwise engaging. The performance I watched was largely attended by school-parties of young children. They were not driven to any particular peaks of fright or amusement, but they were completely attentive to every turn in the action. The grown-ups fidgeted only a few times.

Alastair Macaulay

At the Duke of York's Theatre

Alastair Muir

Dorothy Ann Gould

David Mamet's 'Oleanna'

Even more interesting than the clash of opposites onstage in David Mamet's new play *Oleanna*, now playing at New York's Orpheum Theatre in a production directed by the author, are the conflicts it elicits offstage, within and between its audience members.

The play is a beautifully written, elegantly constructed (save for an implausible dénouement), and wholly provocative conversation piece which furthers America's national debate about sexual harassment, begun last year when then-Supreme Court nominee Clarence Thomas was accused of harassment by his former employee Anita Hill.

In the brief first act, college student Carol comes to her professor's office to confess that she is floundering in his education course. John, the professor, takes her on as an educational experiment, offering her an "A" if she will agree to one-on-one tutoring sessions. In the process of their conversation, John makes some off-colour remarks and, when Carol becomes particularly distraught, puts his hand on her shoulder. He confides in her that he is up for tenure and hoping to buy a house; the repeated phone calls from his wife and lawyer about the purchase make for a conversation full of half-sentences and interrupted thoughts – quintessential Mamet.

Having set up the situation – and the audience – Mamet plays his trump card in the second act. Carol brings charges of sexual harassment against John. Unless he can persuade her to drop the case, his tenure hearing will be postponed and he will lose the house. They meet in his office twice more, the stakes rising and the gulf between their positions widening in a terrific exercise in dramatic tension, which Mamet undermines with an overwrought explosion of violence at the play's end.

Did John really harass Carol, or has Carol set John up to undermine his career? Mamet left the characters' words and actions so ambiguous that it is up to each audience member to decide; differing perceptions turn casual discussions of *Oleanna* into confrontations.

On one level Mamet is the perfect playwright for this subject matter; indeterminate language is his forte. But, given the position of women in his previous works – nonexistent, as in *Glengarry Glen Ross* and *American Buffalo*, or peripheral, as in *The Water Engine* and *Speed-the-Plow* – it is no surprise that in *Oleanna* he has stacked the deck against them by underwriting Carol's character. Unlike John, we are never given information as to her background, personality or motivations.

This problem is exacerbated by Rebecca Pidgeon's wooden performance – for which Mamet must share blame. Presumably we are seeing what he, as director as well as writer, wants us to see: in the first act she is a lifeless, clueless, sexless creature in a shapeless sack dress who repeats "I don't understand" with whining monotony. William H. Macy literally acts circles around her: he twitches, rants and preens all over the stage while Pidgeon sits motionless and stares stupidly at her feet. In the second act, she becomes a mannish fembot in trousers and waistcoat spouting allegiance to her "group," seemingly driven less by passion than programming.

But Mamet's uneven treatment of the issues only strengthens his overriding point that what really matters is not who is right or wrong, but who has got the power. The closest thing this battle of a play has to a winner is not John, Carol, or the genders they represent, but the auteur himself. He is out to provoke with *Oleanna*, and he has done it, in spades.

Karen Fricker

Concert/Richard Fairman

Scandinavian song

The time when the only Scandinavian song we ever heard was Grieg's "With a waterlily" sung in German by Elisabeth Schwarzkopf suddenly seems a long way off. Over the past month the "Tender is the North" festival has inaugurated a virtual single market for songs, in which the music of Northern composers has won an equal hearing alongside that of their continental counterparts.

On Thursday it was the turn of Soile Isokoski, a young Finnish soprano too little known in this country. I first heard Miss Isokoski as a Valkyrie in Amsterdam, but for her Wigmore Hall recital she had laid her spear and helmet aside. It is the rounded and pure beauty of the sound that is her prime gift, fine for the Mozart heroines she sings on stage, but also warm and succulent in Berg's Seven Early Songs.

Like the other sopranos in this festival, she gave us the inevitable Grieg waterlily, floating in her performance over an undercurrent of urgent anxiety. But that degree of intensity in her singing was unusual. Among her Schubert songs, one of the best was "Nacht und Träume", where the voice showed that it could grow in volume and pressure, while sounding just as relaxed as before.

Overall there was a lack of variety, which the beauty of the singing did its best to mask. The *Four Dream Songs* by Aulis Sallinen, Finland's most feted living composer, had a special nocturnal loveliness. The accompaniments, evocatively played by Marita Viitasalo, are made up of eerie sounds overlapping each other in soft focus to set up the dream-like atmosphere, while the voice sings above.

Throughout the festival another voice has been introducing the Scandinavian songs. This is Elisabeth Söderström, recently-retired Swedish soprano, who has preceded each of the recitals with a talk on what the evening's singer is about to deliver. On Tuesday last, however, Thomas Allen cancelled at the last moment and she discovered that she was introducing herself.

At a moment like this a long and varied career into which to delve is invaluable. Söderström, expertly accompanied by Roger Vignoles, gave us probably the most far-reaching programme of all: Sjögren, Nielsen, Peterson-Berger, Kilpinen, Linde, and Rangström. The last – Rangström has been one of the discoveries of this festival – composed two of the singer's favourite songs, including the bleak but tender "Den enda stunden". For once, Grieg's waterlily was left in peace.

Recitals sponsored by British Airways and Skandinaviska Enskilda Banken

INTERNATIONAL ARTS GUIDE

■ BERLIN

CONCERTS

Philharmonie Tonight, tomorrow: Claudio Abbado conducts Berlin Philharmonic Orchestra in works by Ligeti and Rihm, plus Beethoven's Second and Fourth Piano Concertos with Maurizio Pollini.
Thurs: Vladimir Ashkenazy conducts Berlin Radio Symphony Orchestra in works by Mahler, with Dietrich Fischer-Dieskau soloist in the Lieder eines fahrenden Gesellen. Sat, Sun morning; next Mon: Pollini plays Beethoven's First Piano Concerto, in a Berlin Philharmonic concert featuring works by Rihm, Lutoslawski and Berio (2548 8232)
Schauspielhaus Tonight: Daniel Barenboim conducts Berlin Staatskapelle and Chorus in Verdi's Requiem. Thurs: Bach's Christmas Oratorio first part. Fri: George Cleve conducts Berlin Radio Orchestra in Barber's overture The School for Scandal, Ives' Second Symphony and Bernstein's Third (2090 2156). Sat, Sun, Mon: Alexander Rahbari conducts Berlin Symphony Orchestra in Elgar's Cello Concerto (Boris Pergamenshikov) and Shostakovich's Fifth Symphony (2090 2261)

OPERA/DANCE

Deutsche Oper A new Peter Schaufuss production of Nutcracker opens on Fri, repeated on Sat. Tonight: Die Zauberflöte. Thurs: L'Italiana in Algeri. Sun: Hansel and Gretel (3410 249).
Staatsoper unter den Linden Tomorrow: Mozart and Salieri double bill. Wed: Paul Dessau's opera Die Verurteilung des Lukullus. Thurs: Salome with Mara Zampieri and Theo Adam. Fri: La traviata with Tiziana Fabbricini and Dmitri Hvorostovsky. Sat: Tannhauser with Klaus König and Anna Tomowa-Sintow. Sun: Hansel and Gretel (2004 762)
Komische Oper Tonight: Rienzi. Tomorrow: Eine Nacht in Venedig. Wed: Gluck's Orfeo. Thurs: ballet evening. Fri: Die schweigsame Frau. Sat: Cosi fan tutte. Sun: Carmen (2292 555)

■ GENEVA

MUSIC

This year's Christmas show at the Grand Theatre is a French-language adaptation by Alain Marcel of Cole Porter's Kiss Me Kate, opening on Thurs and running daily till Dec 31, except Dec 24 and 25 (311 2311). Wed at **Victoria Hall**: Armin Jordan conducts Orchestre de la Suisse Romande in works by Bach, Zemlinsky and Dvorak (311 2511)

THEATRE

Theatre de Carouge has a production of Goldoni's The Rustics opening tomorrow, daily till Sun. Further performances Dec 29, 31 and Jan 8-24, daily except Mon (343 4343). Farces, an evening of theatre based on Moliere and Dario Fo, can be seen at the **Comedie** till next Mon (320 5001)

■ MILAN

The opening production of the season at **La Scala** is Don Carlo, conducted by Riccardo Muti and staged by Franco Zeffirelli. There are four more performances this month and five in January. Luciano Pavarotti sings the title role tomorrow, Sat and next Tues; Sergei Larin takes over on Thurs and in Jan. This week also includes performances on Wed, Fri and Sun afternoon of the Nureyev production of Nutcracker. Next Mon: orchestral concert conducted by Myung-Whun Chung (7200 3744)

■ NEW YORK

OPERA/DANCE

Metropolitan Opera Tonight: La boheme with Veronica Villaroel and Luis Lima. Tomorrow and Fri: Lucia di Lammermoor with June Anderson. Wed and Sat afternoon: Evgeny Onegin with Mirella Freni and Thomas Hampson. Thurs: James Levine conducts Die Walkure, with Gwyneth Jones, Jessye Norman and James Morris. Sat: Jenufa with Gabriela Benackova, Leonie Rysanek and Ben Heppner (362 6000)
State Theater New York City Ballet presents the Balanchine production of Nutcracker daily except Mon till Jan 3. No performances Dec 17, 24, 25, Jan 1 (870 5570)
City Center Alvin Ailey American Dance Theater, till Jan 3 (581 1212)
Joyce Theater The Mysteries and What's So Funny, music-theatre work by Philip Glass, opens a three-week run tomorrow (242 0800)

CONCERTS

Charles Dutoit conducts this week's New York Philharmonic Orchestra concerts at **Avery Fisher Hall**. Tomorrow at 18.45: works by Berlioz and Tchaikovsky. Thurs, Fri morning and Sat: Tchaikovsky's First Symphony and Prokofiev's Fifth (875 5030)

JAZZ/CABARET

Ballroom A sleek green-walled room with a much-admired restaurant/tapas bar. Melba Moore is this month's artist. Shows at 21.00 Tues till Sat, with an extra show at 23.15 Fri and Sat (253 West 28th St, 244 3005)
Algonquin Hotel Andrea Marcovicci, skilled vocalist and lively raconteur, is queen of the Oak Room. Shows at 21.30 Tues to Sat, with an extra show at 23.30 on Fri and Sat. Dining (59 West 44th St, 840 6800)
Bottom Line A big, airy folk and rock club (15 West 4th St at Mercer St, 228 6300)
Red Blazer Too In the back room you'll find swing bands, Dixieland combos and couples sprung from the legacy of Fred and Ginger (349 West 46th St, 262 3112)
Rainbow & Stars Expensive cabaret currently running a well-received series of composer tributes. Shows at 20.00 and 22.30. Dining. Closed Mon (30 Rockefeller Plaza, 632 3000)

■ VIENNA

OPERA

Staatsoper Tomorrow: Tosca. Thurs: Die Zauberflöte. Fri: La forza del destino. Sat: Christoph von Dohnanyi conducts first night of Adolf Dresen's new production of Die Walküre, with Hildegard Behrens, Robert Hale, Waltraud Meier and Placido Domingo (repeated Dec 22, 26, 29). Sun: Nutcracker (51444 2960)
Kammeroper The company is marking its 40th anniversary with a new production of Rossini's Il Signor Bruschino. This week's performances are tonight, Wed and Sat. Runs till Jan 23 (513 6072)

CONCERTS

Musikverein 19.30 George Albrecht conducts Tonkünstler Orchestra in works by Willi, Weber and Bruckner, with piano soloist Peter Roesel. Tomorrow: Rafael Frühbeck de Burgos conducts Vienna Symphony Orchestra in works by Weber, Schumann and Wagner, with piano soloist Bruno Leonardo Gelber. Thurs: Pinchas Steinberg conducts Austrian Radio Symphony Orchestra in a concert performance of Duke Bluebeard's castle, with Marilyn Zschau and Wolfgang Schoene. Fri: Peter Schreier conducts Bach's B minor Mass. Sun morning and Mon evening: Daniel Barenboim and the Vienna Philharmonic Orchestra play Beethoven's Third Piano Concerto and Sixth Symphony. Dec 22: Barenboim gives a Schubert piano recital (505 8190)
Konzerthaus 19.30 Zoltan Kocsis piano recital. Sat and next Mon: Adam Fischer conducts concert performance of Mitridate, with cast including Eva Mei and Jochen Kowalski. Sun morning: Martin Sieghart conducts Vienna Symphony Orchestra in Mahler's Ninth Symphony. Dec 31 and Jan 1: John Eliot Gardiner conducts Beethoven's Ninth Symphony (712 1211)

THEATRE

A new production of Chekhov's Uncle Vanya, directed by Achim Benning, opens at **Akademietheater** on Fri. The **Burgtheater** repertory includes a new production of Kleist's Das Käthchen von Heilbronn directed by Hans Neuenfels (51444 2218). Elisabeth, a musical based on the life of the child bride of Emperor Franz Joseph, can be seen at **Theater an der Wien** daily except Wed (588 30265).
International Theatre, Porzellangasse 8, has a stage version in English of Dickens' A Christmas Carol daily till Sat, also Dec 21-23 and 29-31 (319 6272)
● Telephone sales of tickets for the Staatsoper, Volksoper and Burgtheater are available for holders of credit cards by ringing Vienna 5131 513

European Cable and Satellite Business TV

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MONDAY TO FRIDAY

CNN
0000-0030, 0300-0330 World Business Today – a joint FT/CNN production with Grant Ferry and Colin Chapman

Super Channel
0700-0710, 1230-1240, 2230-2240 FT Business Daily
0710-0730, 1240-1300 (Mon, Thurs) FT Business Weekly – global business report with James Bellini
0710-0730, 1240-1300 (Wed) FT Media Europe
0710-0730, 1240-1300 (Fri) FT Eastern Europe Report
2240-2248 FT Report

Sky News
2030-2100, 2230-2300 FT Business Weekly

SATURDAY

CNN
0900-0930, 1800-1930 World Business This Week – a joint FT/CNN production

Super Channel
0830-0900 FT Business Weekly

Sky News
1130-1200, 1730-1800 FT Media Europe

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1900-1930 FT Business Weekly

Sky News
0130-0200, 0530-0600 FT Media Europe
1330-1400, 2030-2100 FT Business Weekly

FINANCIAL TIMES
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Monday December 14 1992

EC pulls back from brink

THE EC drew back from the brink at Edinburgh because its leaders saw all clearly the risk of falling over the precipice. Sensible compromises, above all over the Community budget and the Danish question, have re-assembled the Twelve around its core aim of political and economic integration. But the interpretation of how, and during what period, this objective is to be achieved is now, in most parts of the EC, less ambitious, and therefore more achievable, than that outlined a year ago at Maastricht.

Mr John Major can take pride in winding up Britain's problem-strewn EC presidency with agreements restoring a sense of EC balance and purpose. Anything else would have wrought devastating harm to the Community's image and its ability to deliver policies, both internally and externally. Not least, failure in Edinburgh would have damaged chances of forging a strong relationship with the new US administration, and of helping alleviate chaos in Russia and other parts of eastern Europe.

Yet the return of consensus in no way guarantees that the EC can avoid turbulence. Enlargement talks with Austria, Finland and Sweden are to get under way from next month. But the EC needs as much as ever to prove that it is a club worth joining. The resolve displayed in Scotland must be translated into action. This applies not only to the task of making the concept of "subsidiarity" both efficient, and meaningful to ordinary people. The EC must also ensure a positive outcome to the Gatt talks, a subject left off the Edinburgh agenda.

Currency disorder

On the economic front, the path towards economic and monetary union (Emu) now looks less clear than a year ago. But this increases the urgency for the EC to focus efforts on attacking the causes of the instability which forced Britain and Italy's departure from the exchange rate mechanism. Both in tackling currency disorder and in curing the Community's most pressing difficulty - lack of economic growth - there can be few grounds for optimism unless Germany rectifies disequilibrium caused by mismanagement of its economic reunification. As long as this primary EC fault line remains, economic initiatives such as the infrastructure programme agreed in Edinburgh will be little more than palliatives.

With the formal entry into operation of the "single market" next month, the EC has put into place measures which represent potentially the best long-term way of allowing the Community to flourish. But without greater confidence in shorter-term economic prospects - which would be improved by lower German interest rates - the 1993 programme will yield less than optimal results. Without a resumption of growth, the EC's budgetary problems, patched up in spite of histrionics from Mr Felipe Gonzalez, may resurface. The Emu convergence targets will be still more difficult to achieve. Most important of all, the EC's failure to make a real contribution to eastern European revival will start to become not merely embarrassing but, conceivably, a disaster.

No schism

If the Edinburgh meeting has re-established realism about the pace and scope of the Maastricht journey towards closer integration, it has also resolved some doubts about who will be taking part. France and Germany have expended much rhetoric about the need to prevent the Community from being over-influenced by countries most sceptical about the Maastricht process. It is clear that the move to Emu can only take place at two, or several speeds. Yet Edinburgh demonstrated that there will be no fundamental schism. Denmark achieved its sought-after exemptions from pivotal parts of Maastricht, while Britain withstood pressure to agree a July 1993 ultimatum for securing the treaty's ratification.

Since it can reasonably be assumed that both Denmark and the UK will indeed ratify the treaty next year, the overall agenda for Community policies will continue to be set by the Twelve, augmented by members of the European Free Trade Association (Efta) from the mid-1990s onwards. The treaty is far from perfect. But in setting out a framework for more effective co-operation, it represents the EC's best opportunity for enacting policies increasing stability and prosperity across the whole of Europe.

Keeping London on the move

TO STEP into a central London restaurant around noon these days is to be greeted with a forlorn sight: that of bored executives sitting unaccustomedly alone, picking at their bread rolls and sipping fizzy water. It is not that they cannot afford a decent meal. They have simply forgotten the extent to which recession has eased the traffic jams, and arrived embarrassingly early for lunch.

It will not last. Recession may have tempered the demand for transport in London, but in due course an upturn will rekindle the lingering sense of crisis about the inadequacy of the capital's transport. If London is to maintain its international competitive position, the government needs to think urgently about how it is going to cope with the strains on its infrastructure.

Unfortunately, it shows little inclination to do so. True, it has fulfilled its manifesto commitment to appoint a minister with special responsibility for London transport, but it turns out to have been a hollow gesture. The minister's role seems mainly to consist of being visible and well-intentioned: he lacks the budget, staff and powers to have any real clout, and strategy remains a dirty word.

Thus, the government's policies for London are a hotch-potch. Car ownership in the capital is forecast to grow by nearly 50 per cent in less than 20 years, yet badly-needed investment in the public transport alternatives - suburban rail services, buses and the Underground - is being cut. Urban clearways, known as red routes, are planned to speed vehicles into central London, but there is no parking policy to deal with them once they get there. In theory, red routes should speed up buses, too, but the buses are to be privatised and deregulated, in all probability leading to the sort of free-for-all that has already brought disruption to some other British cities.

Jubilee Line

At least, the government can say, it has authorised construction of one public transport project: the £1.8bn Jubilee Line extension. But this decision, too, smacks of incoherence at a time when the government is cutting a third off the £750m-a-year investment budget for the rest of the Underground.

While it is possible to make a case for the Jubilee Line scheme for the regenerative effect it will have on London's Docklands, it is less easy to do so if it means leaving the rest of the Underground to deteriorate into an ever-worsening state of decrepitude. It is the transport equivalent of adding a luxurious extension to a house that needs a new roof.

Given the constraints on public spending, it is clear that any transport policy for London needs not only to be coherent, but to identify new ways of funding investment. One option is higher fares, but that would risk putting more traffic on the roads and raising labour costs. Besides, passengers alone should not be expected to meet the cost of the community-wide benefits conferred by good public transport, such as congestion relief, environmental gains and increased property values.

Road pricing

The logical alternative is to attempt to capture those community-wide benefits by other means. Until recently, two-thirds of London Transport's investment was paid for out of a levy on London rates, but the linkage was severed in 1990 to soften the introduction of the community charge. It now seems sensible to restore the connection, at least in the case of businesses. The Confederation of British Industry is today expected to urge more investment in the capital's transport. The government might test the CBI's resolve by asking its London members to make good London Transport's £250m investment shortfall with a 10 per cent transport levy on the uniform business rate.

Ultimately, road pricing may offer a solution to London's transport problems by simultaneously suppressing traffic growth and yielding funds for transport investment. But London cannot afford to wait that long: it needs better transport now. The government has rejected the idea of London-wide political structures, preferring to exercise direct rule over the capital's affairs from Whitehall. It must now start generating confidence that it has an understanding of the capital's transport problems and face up to the responsibility for putting them right.

The Edinburgh summit's successful conclusion has put the Community back on track, writes **Lionel Barber**

The Maastricht journey resumes

Deal-makers: UK's John Major, left, Spain's Felipe Gonzalez, top right, and Chancellor Helmut Kohl

The Edinburgh summit will go down as the moment when the European Community pulled itself together and put its house in order.

After months of drift and indecision, EC leaders struck a series of deals which offer a reasonable prospect of saving the Maastricht treaty, thus ending the political crisis which has gripped the Community since Denmark rejected the treaty last June.

Even more important, the weekend agreement between the Twelve on the EC budget and on enlargement talks with Austria, Finland, Sweden and, later, Norway, provides a second, perhaps more secure framework for the Community's development to 2000.

"We have solved the Rubik's cube that was laid before us," declared Mr John Major, UK prime minister, shortly before midnight on Saturday in the packed media centre at Meadowbank sports centre. Other EC officials agreed that the much-derided UK presidency had indeed pulled off a high-stakes gamble. "By making everything interdependent," said a Brussels official, "the British turned Edinburgh into an all-or-nothing summit."

In the post-summit afterglow, it was easy to overlook that success had come at a price. The legally-binding exemptions from Maastricht obtained by Denmark go to the heart of the EC's ambitions as agreed in the treaty signed in December 1991, notably the goal of a single European currency by 2000 and a common EC defence policy.

Nor did the summiteers tackle in a serious fashion the broader crisis in the EC. A continental recession is spreading into Germany. The exchange rate mechanism (ERM) continues to be plagued by instability. Beyond its borders, the EC faces the threat of the Yugoslav crisis turning into a wider Balkan war. A sobering reminder of this came on the eve of the summit when 1m Greeks took to the streets in Athens to protest against possible EC recognition of the former Yugoslav republic of Macedonia.

The Macedonia issue underlines the limits of the EC's powers, especially in dealing with a recalcitrant member, in this case Greece. Faced with the Greek government's opposition to possible Community recognition of Macedonia, EC leaders pledged a "substantial" package of aid to the former Yugoslav republic and held out the promise of World Bank and International Monetary Fund assistance; but they ducked the fundamental issue.

Yet with some justification, Mr Major can argue that, without a settlement of the EC's internal problems, there is little prospect of turning the Community's attention outward. The breadth of agreements reached at Edinburgh give the EC a genuine chance of a "relaunch" next year when, in a comic twist of fate, the UK hands over the presidency of the EC to Denmark.

The Danes represented the most pressing issue at Edinburgh: how to resolve Danish demands for opt-outs on Maastricht, without re-opening the treaty or requiring re-ratification of a new treaty by member states. Without an agreement on the Danish issue, the summit was doomed to failure.

Given the legal acrobatics involved in finding a solution, EC leaders strove to convince observers that they had made the Danes sweat. Yet the outcome left Denmark with all of its *substantive* demands intact, including exemptions from the third phase of monetary union when the Twelve are supposed to move to fixed exchange rates by 1999 at the latest; a common EC defence policy; common EC citizenship; and co-operation on justice and immigration matters at a Community rather than inter-governmental level.

The Danish deal was made even more palatable by some useful practical steps on making EC decision-making more open and the bureaucracy less intrusive. In future, votes in the Council of Ministers will be published and some policy debates will be open to the public. The European Commission has also agreed to exercise more restraint in proposing legislation; but a promised hit-list of EC directives for scrapping fell far short of British hopes.

Foreign diplomats in Edinburgh said the Danish deal looked like the EC was turning into a Community à la carte, where members can pick and choose what they like. Yet there is a precedent: a year ago the UK rejected Maastricht's social policy chapter and reserved its right to take part in a common currency.

Others took a more charitable view with a topical comparison with the royal marriage. "It's like Prince Charles and Diana," said a German EC-watcher, "Denmark has chosen the path of separation but not divorce."

Whatever its legal niceties, the Danish package comes down to raw political expediency: how to ensure that the Danish people approve a second referendum on Maastricht, at the end of April or early May. Or as one UK official put it: "The goal of the summit is to save Maastricht, irrespective of its contents."

Both Mr Poul Schlueter, the Danish prime minister, and Mr Major pointed out that without ratification of Maastricht by all Twelve there can be no treaty; indeed, the British prime minister refused to be drawn on his own ratification timetable beyond a promise to complete "hard on the heels" of the Danish vote.

The Anglo-Danish shilly-shallying on Maastricht plainly infuriated most EC leaders. Over lunch on Friday, Belgium took the lead in warning Denmark and Britain that they could not stop the Ten pressing ahead "with the substance of Maastricht". Virtually all the other leaders joined in; but no one ventured to predict what will happen if the Danes say No once again next spring.

There is considerably more certainty about the EC budget. The summit's seven-year budget deal is a big achievement because it removes the one issue always guaranteed to fray tempers and produce political stalemate: money.

The Edinburgh package allows the Community to plan for the future with a degree of security, just as it did in February 1988 when, once again, German generosity broke the logjam. Mr Jacques Delors, European Commission president who before Edinburgh railed against the risk of creating an EC run on the cheap, appeared satisfied: "I have got 85 per cent of what I wanted."

The budget deal is a compromise between north and south - or between the rich and poor members of the EC. But by contrast with 1988, Chancellor Kohl on this occasion has become a reluctant paymaster. Burdened with the costs of unification, Mr Kohl insisted that the Twelve commit themselves to begin enlargement negotiations with Austria, Finland and Sweden early next year. The accession of the richer northern states by 1996 fits the German goal of spreading the budget load.

For Spain, which led the fight for more development funds, the deal offers firm numbers on so-called structural and cohesion funds funnelled to the poorer members of the Community, including Greece, Ireland and Portugal. In real terms, Spain can claim that it has won a doubling of these funds by 2000. In effect, the increase in funds is the "bribe" for southern members to pursue the budgetary discipline necessary to meet the strict criteria to qualify for European monetary union (Emu).

Yet the question is whether the goal of Emu is still feasible. The summit's limited agenda was again underlined by the leaders' unwillingness to discuss the turbulence in the exchange rate mechanism which has plagued the system since Denmark's No vote in June cast doubt on monetary union.

Instead, EC finance ministers agreed to a modest serious of measures aimed at stimulating growth in the Community, mainly through co-ordinated measures aimed at boosting capital spending in west and east Europe.

The European Investment Bank is to set up a temporary lending facility of Ecu5bn (£4.04bn) to finance roads and telecommunications projects with more flexible lending criteria. The summit also agreed to set up a new European Investment Fund with Ecu2bn of EIB capital to provide guarantees to small and medium-sized businesses. But UK claims that the combination would stimulate private finance for Ecu24bn worth of projects look far-fetched.

Cynics might dismiss the growth package as a confidence trick. But confidence is just what the Community needs after the buffeting of recent months. This is why the enlargement talks with the Austrians and Scandinavians are viewed as so important by Mr Delors, Chancellor Kohl, Mr Major and President François Mitterrand.

Besides persuading Denmark that it cannot afford to be left out of the EC, the enlargement talks are also aimed at recapturing the dynamism of the late-1980s when the EC embarked on its goal of a single intergrated market by the end of 1992 and a common European currency by *2000*.

Yet the lesson of the summit is that, while almost every member state believes enlargement is a good thing, they each have a slightly different impression of what it will mean for the EC as a whole.

Late on Friday night, Chancellor Kohl spoke expansively of a Community stretching eastwards to include Poland, Hungary, the Czech and Slovak Federation, and the Baltic states - but not Romania, Bulgaria, Turkey or the Balkans. For Mr Kohl, enlargement should help the EC absorb the German giant at the centre of Europe while also giving the Community the resources to become an equal partner with the US and Japan.

Britain, too, shares the desire for a wider EC. But the UK is far more wary of loose German talk of "political union" and is deeply sceptical about the EC's chances of pulling off Emu. France - pulled along by Germany - now appears reconciled to the fact that the Community must first widen its membership before tackling the problem of "deepening" EC institutions.

The institutional problems raised by an enlarged Community will not go away. More members surely means more majority voting in the Council of Ministers; it may mean, too, a greater role for the European Parliament; it could even require a new EC constitution.

The uneasy compromise reached at Maastricht - a mix of intergovernmental co-operation and tentative federalism - will have to be revisited, most likely at a conference to review the treaty in 1996.

For the moment, Mr Major is savouring the satisfaction of a job well done. Criticism of the UK presidency was, in hindsight, overdone. Thanks to a combination of clever legal drafting, meticulous preparation on the budget, and a little help from Chancellor Kohl and President Mitterrand, Mr Major can rightly claim that the EC is back on track.

Samuel Brittan

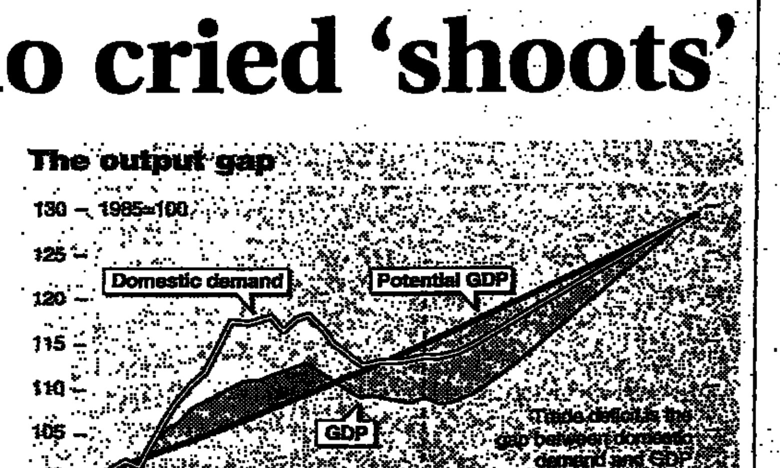
Boy who cried 'shoots'

We all know the story of the boy who cried "wolf" so many times as a hoax that when there really was a wolf no one believed him. But what do we call his cousin, who announced imaginary good news so frequently that he, too, was disbelieved when right? The best I can suggest is "the boy who cried 'green shoots'".

The long-awaited Treasury monthly report, published last Thursday, is not written by either kind of boy. But it contains a far more comprehensive set of indicators than anything published on as timely a basis by academic institutes, private analysts or the press. The value of the report is as an example of both the economies of scale and of a public good. Government economists and statisticians can provide a more comprehensive service than almost anyone else and it is absurd that publication has been so long delayed.

The most important uncertainty on the *monetary and inflation front* is whether the depreciation of sterling will pass through into domestic prices in the next year or two - thus devaluing the pound in your pocket - or whether the depressed state of demand and activity will stop the pass-through. Sterling's departure from the ERM is far too recent for even a tentative answer to appear in the latest indicators.

The December Treasury report is thus more interesting on the real economy. The impression given is of an economy that has bottomed out in terms of real demand and output. There are a few indicators such as cash balances (M0), corporate borrowing and retail sales suggesting something a bit better. But wise people will not shout "green shoots" until they have seen them springing out of the ground.



One analyst complained that the monthly report did not even restate the government's own goals and objectives. But that is to assume that "the government" knows them itself. For instance, is the objective of macroeconomic policy confined to keeping inflation within the 1 to 4 per cent band explained by the chancellor to the Treasury committee immediately after departure from the ERM? And is the talk of "going for growth" just mood music? Or are there output objectives as well? We have not a clue.

My main technical criticism of the report is that there is almost nothing that enables one to evaluate the gap between output and capacity, either in terms of physical capacity or the margin of unemployed labour. This cannot be right. An x per cent growth of output must mean something different in the aftermath of a deep slump to what it means when production is pressing against the limits of capacity. I have tried to remedy the deficiency by adapting a Goldman Sachs chart. This suggests at first sight that the gap between output and capacity is now so large that a hefty kick-start is indicated.

In the Goldman Sachs version, however, the greater part of the output shortfall appears to be due not to depressed home demand but the trade deficit. In other words, recession conditions are due mainly to the diversion of British demand into imports and the export slowdown.

My own suspicion is that part of the overseas gap is temporary, representing depressed international conditions, especially in Europe. Part represents *remaining deficiencies* in the trade statistics. Another part may be remedied by sterling's depreciation, if that is not completely eroded by domestic inflation. Yet a further part may be offset by sustainable inward investment and thus allowed to run.

In addition, the level of usable capacity may be less than suggested by the trend line. In that case the recession gap that can be safely closed either by policy measures or by spontaneous recovery is that much smaller. Such barely articulated ideas may help to rationalise the official penchant for a modest initial recovery. But without some concept of capacity output and its trend, even the best of economic reports is just a string of numbers to be tagged at the back of executive summaries.

Menu to make a leaner and fitter bank

Barclays faces some awkward choices if it is to regain its position as Britain's most profitable high street bank, writes John Gapper

Just for now, while its headquarters in the City of London are re-built, and its directors struggle to restore its battered reputation, Barclays Bank has taken up residence in the 1810 Johnson Smirke building at the old Royal Mint. Visitors to the grandest high street bank in Britain are still served lunch on fine china, and wine in cut glass. But the main course is humble pie.

"We are not doing well, we are not giving our shareholders value, and we have got to do better," says Mr Andrew Buxton, the chief executive. "We must learn from the mistakes of the past, and improve substantially," says Mr Alastair Robinson, director of the banking division. "I don't know if we were dumber than others, but we were certainly dumb," says Mr Joseph DeFeo, director of service businesses.

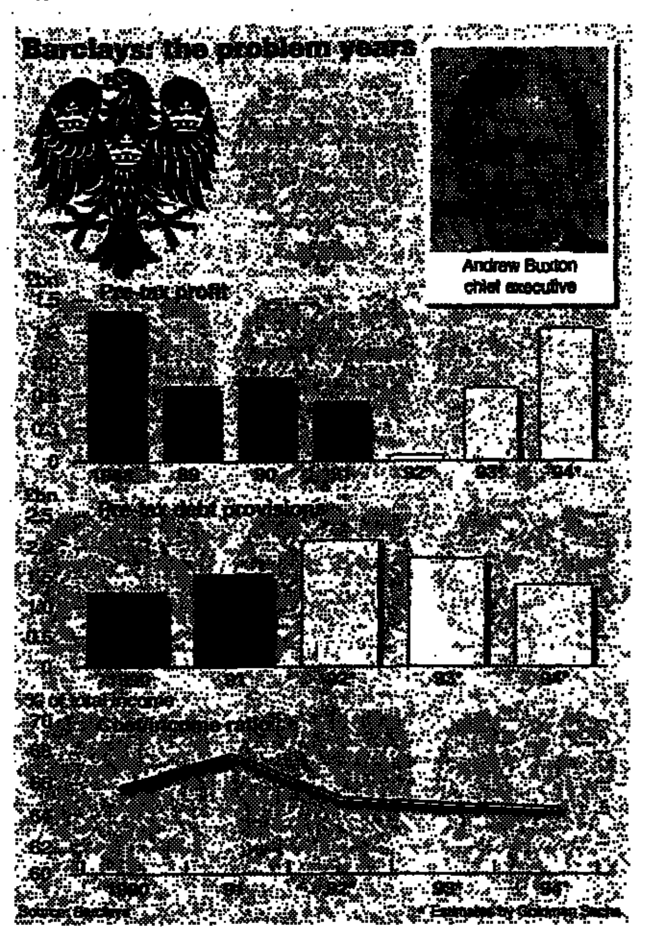
This public hand-wringing is new for Barclays. While the other high street banks went through troubles in the past five years, Barclays seemed to stand above the fray. Until last year, it was Britain's most profitable bank – making pre-tax profits of £1.39bn in 1988 – as well as the largest by asset size. But in the past year, it has been beset by problems. It is likely to make only a small profit this year – possibly even a loss – because of bad debt provisions estimated by analysts at about £2bn.

This presents the bank with an awkward choice. If it cuts the final dividend, it risks alienating shareholders who backed a £922m rights issue in 1988. This was the capital used for an ill-judged expansion in lending, including a rise in its £8.5bn portfolio of property loans. Yet maintaining the dividend – at a cost of some £192m – would weaken its capital base.

Barclays has tried to signal a fresh start by appointing Mr Buxton as chairman and chief executive, following Sir John Quinton's retirement this month. But the move has provoked controversy over whether Mr Buxton, the managing director under Sir John, should combine the roles. After meeting unhappy institutional investors, Mr Buxton said last week that the roles would be split "in the long term".

Mr Buxton is pleading for time. He knows Barclays faces renewed criticism when the full-year results are published in March. He believes a firm improvement in profitability will only emerge in 1994, with next year being a time of "recovery".

But he has set an ambitious long-term target: 15 per cent post-tax return on equity within five years. This would require pre-tax profits of £1.4bn at current equity levels.



Andrew Buxton chief executive

Senior Barclays managers want to do three things to reverse the bank's fortunes. First, to draw a line under the past; second, to implement tougher operating methods; third, to put in place a coherent strategy for the future. Mr DeFeo believes if they achieve these, they deserve a reprieve. But even he accepts that clemency cannot last forever. If results do not improve in time, "I would sack us all, and rightly so," he says.

Barclays is likely to make a small profit – possibly even a loss – because of bad debt provisions of about £2bn

The degree to which Barclays achieves these aims will depend on an old tension within the bank: how rapidly it should leave the past behind. The past exerts a strong pull: Barclays was formed by a merger of local family banks in 1894, and members of the families have traditionally formed its top management. Although Sir John was not a member of the families, Mr Buxton's family was involved with the Overend Gurney Bank, which was absorbed by Barclays.

This is one reason why the bank's first aim of drawing a line under the past has proved hard. Mr Buxton's association with family control has exacerbated the dispute over his appointment as both chairman and chief executive. In addition, the bank is still dealing with its past lending. One example is Imry, the struggling property company, to which the bank lent £440m. Barclays has already made one provision of £140m, and is expected to disclose a further one of at least £200m shortly.

Its second aim is achieving more efficient operations. In branch banking this means increasing the use of technology, so as to cut jobs. It now intends to shed 18,000 of its 80,000 employees between 1991 and 1995. This is welcomed by analysts. Mr Rod Barrett, of Goldman Sachs, says cutting costs is the most direct way in which Barclays can improve profits over the next two years.

Yet the bank must cut numbers while trying to improve service. Mr Robinson says relations with customers are strained. Many small businesses have complained about the bank's tighter lending policy. "It is important to re-establish relationships of trust with our customers," he says. Mr DeFeo says it will take up to six years to install the technology needed to improve analysis of loan risks and provide 24-hour telephone banking.

In investment banking, greater efficiency means being selective about the type of business it seeks. Mr David Band, chief executive of the BZW investment banking division, says BZW has wasted energy by trying to compete with banks such as Deutsche bank within their own countries. He says BZW needs to seek cross-border business where it can offer a competitive advantage. "There is no point in throwing money at everything. We have had a blunderbuss approach, and we must aim more carefully with a rifle," he says.

The third aim, of establishing a coherent future strategy, is probably hardest of all. Mr Buxton has drawn up a five-year plan, with the aim of making Barclays "a European bank with global reach". What this means is not clear. He wants to develop its 50 branches in France – acquired through buying L'Européene de Banque last year – and 220 branches in Spain. Yet in Germany, it will eschew branch banking.

The emphasis on international expansion raises the question of balance between branch and investment banking. Mr DeFeo says Barclays must reduce its reliance on UK branch banking because the difficulty of reliable risk management means its earnings will otherwise be "jerked around in huge cycles" with the economy. In the US, Barclays has decided to concentrate on investment banking after making losses on its branch network.

In healthier times, the balance might be achieved through competition between the two divisions for capital depending on which made a greater return. Yet as Mr Band says, this is hardly possible at the moment because "on recent results, you would not allocate capital to anyone". At least for a few years, the balance will have to be decided more by directors' judgement than by figures.

For the moment, the main figure that concerns directors is Mr Buxton's target of 15 per cent post-tax return on equity. Analysts and directors agree there is virtually no chance of achieving that next year, while this year's profit will be puny at best. It is likely to be some time yet before there can be a change on the lunch menu at the Johnson Smirke building.

OBSERVER

Piris tops the summit

■ If there was ever a lawyer-of-the-year award then Jean-Claude Piris, head of the legal service at the European Council, deserves it. He is the unsung hero of the Edinburgh summit for the way he helped devise a solution to Denmark's demands for legally binding exemptions to the Maastricht treaty.

A graduate of the elite Ecole Nationale d'Administration, the 49-year-old Piris is a rare breed of international civil servant. A lawyer by training, he also possesses a keen political instinct as shown by his conviction that, in the end, the Danish question was always a "matter of presentation."

His political nose, well-honed by stints in the UN and the OECD as well as the Brussels bureaucracy, proved indispensable as he joined lawyers from the British Foreign Office in finding a solution to the Danish problem: how to meet Copenhagen's demands for legally-binding opt-outs from Maastricht without re-opening the treaty or triggering re-ratification in member states.

Before and during the summit, Piris faced what amounted to a Spanish inquisition, first from foreign ministers, and then from heads of government on whether his wording undermined the letter and spirit of the Maastricht treaty. In the end, the agreement reached on Saturday drew praise all round. EC president Jacques Delors, described it as "extremely subtle", and Danish officials said it was "devilishly clever".

Piris, who speaks fluent English, had a broad idea of how to resolve the Danish question as early as last September. But it was only in the final weeks before the Edinburgh summit that the UK presidency called upon Piris. Like the battle of Waterloo, it was a close run thing.

Damage control

■ The Chicago Board of Trade couldn't have asked for better weather for the launch of its new catastrophe insurance futures contracts. As trading began on Friday, gale force winds, rain, and flooding brought New York city to a halt and battered the East coast.

Unfortunately, the first day's trading volume was virtually non-existent because the New Jersey-based property claims reporting service, that the CBOT relies upon to keep traders informed of estimated damages, was put out of action by mother nature.

Dr Who?

■ Interesting to see whether the halo of Dr Gwyn Jones, the soon to depart chairman of the Welsh Development Agency, survives in tact after today's grilling by the Commons Public Accounts Committee.

The 44-year-old Jones, one of the young thrusters of Welsh business, has done a good job raising the profile of the WDA and attracting lots of well known foreign companies to invest in the valleys. But the National Audit Office, the independent official watchdog, has taken his agency to task for the size of its golden handshakes – roughly a quarter of the staff have been made redundant over the last three years – and its policy of free petrol for WDA bosses. The irregularities were not big

'It can't be that difficult if John Major can do it'

enough to cause the WDA's accounts to be qualified, but they have pricked the interest of the PAC.

For a man occasionally mentioned as a future boss of the Confederation of British Industry or even chairman of the BBC, Jones needs to prove to the PAC that he is just as much at home with the fine print as he is with the big picture.

Chatting up

■ The men in charge of repairing the reputations of two much-maligned public figures were working overtime yesterday. First on the phone was Colin Byrne, the Labour party's former chief press officer now in the Prince of Wales' employ.

Had Observer noticed that Donald Keough, president of Coca-Cola, was among the corporate chieftains backing the Prince of Wales Business Leaders Forum? Indeed, it says something for the POW's growing international pulling power if his forum can recruit top executives like Keough and Volkswagen chairman Carl Hahn to pontificate on corporate social responsibility in the latest edition of First magazine. In the past the Prince's choice of business leaders seems to have been driven more by people who want to know him, rather than people he should get to know.

Observer's second call of the day was from an aide to Amstrad's Alan Sugar pointing out that his boss had just opened the £800,000 Sugar wing of an old people's home in Essex.

Well done Alan, but in terms of corporate good deeds, it falls well short of Gerald Ronson's generally unpublicised largesse.

Tempus Fugit

■ It is corporate diary time again and a couple of US diary dates catch the eye.

National Condom Month falls in February, and Global Understanding Day on March 26 should be fruitful. Americans are exhorted to spend April 2-4 soberly, as it's Alcohol-Free Weekend. And get the brain clear for April – Mathematics Education Month. Can't wait.

Gunplay

■ Now for a quiz about gunfighters of the old American West. Answers by mail, or fax to 071-873 3926 – not telephone, please – by noon on Friday when the first top-scoring entry out of the hat will win a bottle of malt whisky.

1 Name The Magnificent Seven.

2 Which western gunfighter ended his working life as sports editor of the New York Morning Telegraph?

3 Which one was married, albeit briefly, to Mrs Thatcher?

4 Which rival did he dispose of and so win her affections?

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Money not well spent

From Mr Allan Black.

Sir, I was surprised to read that, in spite of low profit, Pilkington decided to maintain its interim dividend, funded largely from reserves ("Pilkington raids reserves for dividend", December 11).

It strikes me that the short-term interests of the shareholders are being met to their long-term disadvantage. As national officer of the GMB union representing many Pilkington employees, I cannot believe that Pilkington reserves could not have been better spent on research and development to maintain its technological lead, on new training initiatives to increase the skills of the workforce, on capital investment to replace some of the jobs the company has lost or plans to lose, or on a mixture of all three.

From a leading company that had a reputation for planning ahead and looking after the interests of its employees this seems to me to be the worst kind of short-termism.

Allan Black,
GMB,
22-24 Worple Road,
London SW19 4DD

Low gas prices a loss leader?

From Mr Roger Backhouse.

Sir, The report by Prof Stephen Littlechild, the electricity regulator, into the "dash for gas" misses one important possibility. It is common practice for a new supplier aiming to establish a new market to lower prices as a loss leader. The gas industry is offering lower prices now but is unlikely to be able to sustain them. If this has the effect of knocking most of the coal-based competition so much the better for the new supplier. However, the long-term effect will be to increase both electricity and gas prices.

There is no sign Prof Littlechild has taken this into account. His evidence should therefore be treated with considerable caution.

Roger Backhouse,
112 Thorold Road,
Ilford, Essex IG1 4EY

Analysis of monetary union in danger of missing real benefits

From Mr Maximilian Cartellieri.

Sir, It is disappointing to witness how the debate on European monetary union risks being reduced to an exchange of non-objective views by the nostalgic representatives of one or another conviction.

It simply does not do justice to the facts for Prof Martin Feldstein to reduce the gains to the UK from monetary union to those arising from the fact that a single currency would "simplify UK business dealings within the EC," (Personal View; "The ultimate opt-out", December 9). Or to assert that those "are small in comparison with the higher average cyclical unemployment in Britain that would result from the loss of a national monetary policy and of a currency that responds to market forces to maintain competitiveness".

First, even supporters of Emu recognise that savings from transactions costs under Emu would amount to, at most, 1.5 per cent of GDP. But this is beside the point, because these are a by-product rather than an objective of Emu. The most important benefit for UK business is the removal of long-term exchange rate uncertainty, which under the current system of floating rates increases the risks of doing business in EC countries and for which forward facilities barely exist at all.

The main benefit for the UK economy as a whole is the prospect of escaping from the inflationary boom-and-bust cycles that have characterised economic policy in the past. The larger credibility of an independent European central bank makes it likely that this goal can be reached at lower cost than is possible under present arrangements.

Prof Feldstein claims that UK unemployment would increase as a result of the loss of national monetary policy. Why should it? It is well known that the UK is characterised by real-wage rigidity, and that the temporary gains in competitiveness from devaluation are quickly eroded through higher inflation. Britain cannot price itself back into world markets simply by devaluing.

Prof Feldstein's other claim, namely that under Emu monetary policy might be determined by politicians and not by central bankers, has even less factual basis. The ECB will be more independent than the Bank of England is at present – if he fears politically motivated interventions into monetary policy, the ECB is the best way to reduce this danger.

Weighing up publicly the pros and cons of a big decision such as Emu is crucial – but it is time that the debate is again based on facts and analyses.

Maximilian Cartellieri,
41 Palace Gardens Terrace,
London W8 4SB

Simpler method of assessing council tax

From Mr James R Adams.

Sir, Mr Bradman (Letters, December 5) underestimates the problems householders face with the (in)equity of the council tax, and exaggerates the steps needed to improve it.

The fact that the date for national valuation is April 1 1991 *for everyone* does not mean that everyone faces the same prospect of being in the wrong band. Since that date the proportion of properties in the Granada TV region falling into the A band has declined from 41.6 to 35.1 per cent; in the Thames TV region, the proportion has *increased* from 10.7 to 13.4 per cent. Even within the same area different types of property have behaved differently in price terms.

The simplest way of assessing property tax, as we pointed out to the Treasury at the time, is to proportion payments to the number of rooms in the dwelling. This can readily be self-assessed (and would have saved millions of pounds of tax-payers' money had it been) and checked, and will not change unless the owner wishes it to. It has justice in that the over-crowded pay less than those with greater amenity, while most people will pay more or less in proportion to their demands on the services provided.

James R Adams,
chairman, Adams Residential Property Index
5 Langley Street, London WC2

Realism needed for UK leisure training

From Ms Janet Salmon.

Sir, The leisure industry employs 2.4m people and the tourism industry alone earned £7.1bn in foreign exchange in 1991. Its ability to provide a top-class service and a quality product is important to the economic health of the country.

The survey on progress towards the UK training targets for national vocational qualifications (NQV) in the leisure industry, showed that the training target of 50 per cent of the workforce to be working towards NVQ level 3 by 1996 is optimistic, based on the present progress.

The Confederation of British Industry and the government should consider setting more realistic and achievable targets. The structure for the provision of NVQs is complex and overlapping and consideration should be given to reducing the number of awarding bodies and industry lead bodies. Total quality management and national vocational qualifications are "synergistic" approaches which need to fall under one, rather than two government departments.

National vocational qualifications must be implemented in a streamlined and cost effective manner, if Britain's leisure industry is to compete with Europe.

Janet Salmon,
20 Amherst Road,
Ealing, London W13 8ND

FINANCIAL TIMES
Monday December 14 1992

Into the interior: US Marines take control of a vital airfield at Beli Dogle, 160 km west of the Somali capital of Mogadishu, on Saturday. The Marines will pave the way for the arrival of the 10,000-strong US Army 10th Mountain division.

Marines seize airstrip, Page 6

Kidnap poses security challenge for Israel

By Hugh Carnegy in Jerusalem

THE ISRAELI government was last night facing its severest security challenge since it took power in July following the kidnap of a paramilitary police officer early yesterday by an Islamic fundamentalist group demanding the release of its jailed leader.

The kidnapping inside Israel of the Border Police sergeant-major came on a weekend when three Palestinians and a soldier were killed as a surge continued of both armed attacks and violent street demonstrations coinciding with last week's fifth anniversary of the intifada, the uprising against Israeli rule in the occupied territories.

The government's handling of the abduction, in the central city of Lod, will be closely scrutinised by the opposition Likud party and its rightwing allies, which have strongly criticised Mr Yitzhak Rabin, the prime minister, over the recent spate of violence.

Responsibility for the kidnapping was claimed by Qassam, the military wing of the Hamas Islamic fundamentalist movement. It said Sgt-Major Nissim Toledano would be killed if Hamas leader Shiekh Ahmed Yassin, jailed for life in 1991 for ordering the killing of Palestinian collaborators, was not released by 9pm local time last night. The authorities confirmed Sgt-Major Toledano was missing.

In the Gaza Strip, two Palestinians were shot dead and more than 100 injured in clashes with troops yesterday and on Saturday. Another Palestinian was killed in the West Bank.

A soldier also died in an armed ambush, claimed by Qassam, near the West Bank town of Hebron.

The soldier was the fifth member of the security forces to be shot dead in the past week, compared with 19 killed over the previous five years. There has been a steady rise in the number of armed attacks, mainly by supporters of Hamas, which opposes the current Middle East peace talks.

Mr Moshe Katsav, leader of Likud's parliamentary group, maintained yesterday that there was a direct link between the government's relatively conciliatory stance in the peace talks and the rise in violence.

But Mr Shimon Peres, the foreign minister, said only a political solution would end the violence. "As long as this conflict continues, we will have problems," he said.

UK drug groups 'will be hit by health reforms'

By Paul Abrahams in London

BRITISH-BASED drugs groups stand to lose up to £450m from National Health Service reforms proposed by the government, the drug industry claims.

Lost sales could could cost up to 5,000 jobs in the UK and as much as £400m in lost capital investment, according to the Association of the British Pharmaceutical Industry.

The proposals, announced last month by the Department of Health as part of chancellor Norman Lamont's autumn statement, involve the creation of blacklists of products that will no longer be provided by the NHS on prescription.

The blacklists could cover up to 600 medicines in 10 therapeutic categories and as many as 90m prescriptions a year.

The ABPI yesterday urged the government not to issue the blacklists. It claimed that they were drawn up in spite of undertakings not to extend the original list given in April by Conservative Central Office to US drugs groups in the UK.

Exact details of the medicines affected by the measures are yet to be disclosed. However, some groups could lose more than 70 per cent of their NHS revenues.

The government's proposals are part of a Europe-wide drive by governments to control spiralling drugs bills. In the UK, NHS drug spending has risen annually by about 12 per cent over the past two years. The industry claims the escalation is due to the ageing population and the government's own programme of increased screening of patients. In 1991, the government spent about £3.2bn on drugs.

Previous blacklists for seven therapeutic areas introduced in 1985 saved the NHS £75m during the first year, according to the government. The savings are contested by the ABPI. It argues that many patients were prescribed more potent and expensive treatments instead of simpler and cheaper medicines for which they would have had to pay.

The latest initiative is likely to affect significantly research and development in the 10 therapeutic areas, warned Mr Mike Wallace, managing director of Schering Healthcare, the UK drugs arm of the German group Schering.

He said that if new products were automatically blacklisted it would provide a disincentive to invest in the field.

The 10 therapeutic areas include anti-diarrhoeals, hypnotics and anxiolytics, appetite suppressants, contraceptives, topical anti-rheumatics, as well as treatment for allegic allergic disorders, vaginal and vulval conditions, anaemia, ear and nose illnesses and skin diseases.

The impact of the proposed measures would fall unevenly on UK-based companies.

Liechtenstein defies Swiss poll by voting to join EEA

By Ivo Dawnay in Vaduz

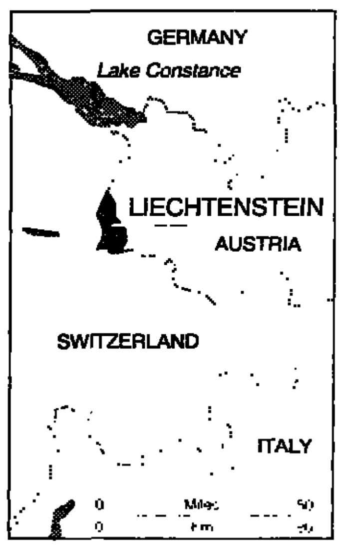
A MOUSE roared in alpine Europe yesterday when the tiny principality of Liechtenstein defied public opinion in neighbouring Switzerland and voted to join the European Economic Area.

In traditional Ruritanian style, Mr Hans Brunhart, the prime minister, offered a news conference dominated by Swiss journalists the joking pledge that this would not mean border posts being put up on the country's eastern Rhine frontier – "at least not tomorrow".

The outcome was quite as surprising to many Liechtensteiners as Switzerland's vote just a week earlier not to join the EEA, the free trade grouping widely seen as a waiting room for the European Community.

Most of Liechtenstein's political leaders had warned before the Swiss plebiscite that – whatever its result – their country should follow their neighbour's lead.

But when the Swiss voted No, Vaduz was caught in a quandary between solidarity with Berne and its need to trade in a wider Europe. In the event, the outcome was decisive, with all 12 communes obeying Prince Hans Adam II's impassioned entreaties for a Yes vote. The overall majority was 1,400 votes a landslide in a country of just 30,000.



The consequences, nonetheless, may be significant for the 70-year-old customs union with Switzerland. Hurried assurances were issued last night that the vote would not materially affect relations with the Swiss nor involve surrendering the mighty Swiss franc as Liechtenstein's national currency. The principality's businessmen and international bankers have also been promised that there is no threat to its much-envied low-tax regime which has helped make it the richest country in Europe in terms of GDP per capita.

Talks will open in the coming weeks with Switzerland as to how to adjust the terms of the customs union to accommodate both sides.

Last night, the Prince was clearly jubilant at his subjects' decision. He insisted the outcome was not so much a rejection of Switzerland as a solid endorsement of closer trade ties with a wider Europe that buys 45 per cent of Liechtenstein's manufactured exports.

Questioned on possible EC membership, opposed by a vast majority of his countrymen, the Prince rejected a membership application in the foreseeable future as "a step too far".

That will come as a relief to the lightly taxed drinkers celebrating or drowning their sorrows last night in downtown Vaduz.

Major confident that treaty is salvaged

Continued from Page 1

sceptics said last night that they will step up their efforts to wreck the legislation with lengthy Commons' debate of the hundreds of amendments already tabled.

The government also faced a warning from the opposition parties. The Liberal Democrats, firm supporters of Maastricht, said their backing for the government would depend on a "speedy" third reading. Labour indicated that it intended to keep Mr Major guessing on whether it would again oppose the bill.

The prime minister said he had agreed that Britain would ratify "as speedily as possible". But the only time limit he would set was the end of the parliamentary session in the autumn.

The direct link between Danish and British ratification set out in detail by Mr Douglas Hurd, the foreign secretary – added a note of uncertainty to what was widely judged to have been a considerable diplomatic success for the prime minister.

Mr Hurd, speaking on BBC television, acknowledged that if Denmark and Britain rejected the treaty some or all of the remaining 10 governments might sign a new agreement.

Mr Hurd warned of the danger of Britain being left outside any grouping which could take decisions affecting the country's "jobs, prosperity and security". Downing Street said the comments underlined the government's commitment that the Community's 12 nations should move forward together.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	15	59	Boulogne	F	8	46	Frankfurt	C	6	43	Majorca	S	16	61	Oporto	S	17	63	Tenerife	F	18	64
Algiers	S	16	61	Brussels	S	6	43	Geneva	S	5	41	Malaga	S	16	61	Oslo	S	-3	27	Tokyo	S	13	55
Amsterdam	F	8	46	Budapest	F	5	41	Gibraltar	F	15	59	Malta	C	15	59	Paris	F	9	48	Toronto †	S	-9	16
Athens	F	15	59	Buenos Aires	F	26	79	Glasgow	R	10	50	Manila	F	35	95	Prague	R	2	36	Tunis	C	16	61
Bahrain	S	21	70	Cairo	S	21	70	Helsinki	Sn	-1	30	Melbourne	F	22	72	Reykjavik	C	-3	27	Valencia	S	16	61
Bangkok	C	33	91	Cape Town	S	23	73	Hong Kong				Mexico City	F	21	70	Rhodes	F	13	55	Venice	S	8	46
Barcelona	S	11	52	Caracas	F	28	82	Innsbruck	F	[illegible]	26	Miami †	S	10	50	Rio d'Janeiro	C	31	88	Vienna	C	4	39
Beijing	S	2	36	Casablanca	S	17	63	Inverness	F	10	50	Milan	C	4	39	Rome	S	15	59	Warsaw	F	2	36
Beirut	F	16	61	Chicago †	C	2	36	Islamabad	F	18	64	Montreal †	S	-2	28	Salzburg	C	4	39	Washington †	C	4	39
Belfast	C	9	48	Cologne	C	5	41	Istanbul	R	7	45	Moscow	Sn	-3	27	S Francisco †	S	11	52	Zurich	S	4	39
Belgrade	F	6	43	Copenhagen	S	5	41	Jakarta	R	31	88	Munich	C	3	37	Seoul	C	0	32				
Berlin	C	5	41	Corfu	F	13	55	Johannesburg	F	17	63	Nairobi		–		Singapore	F	30	86				
Biarritz	C	11	52	Dallas †	R	16	61	Lisbon	S	11	52	Naples	S	15	59	Stockholm	C	-2	28				
Bombay	S	30	86	Dublin	C	10	50	London	C	8	46	Nassau	F	23	73	Strasbourg	C	5	41				
Bordeaux	C	8	46	Dubrovnik		–		Los Angeles †	S	11	52	New Delhi	S	19	66	Sydney	S	23	73				
				Edinburgh	C	10	50	Luxembourg	C	3	37	New York †	C	2	36	Taipei	F	23	73				
				Faro	S	16	61	Madeira	S	18	64	Nice	S	14	57	Tangier	S	18	64				
				Florence	S	9	48	Madrid	S	10	50	Nicosia	S	18	64	Tel Aviv	R	14	57				

Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloudy Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder

THE LEX COLUMN

Testing the gears

Last week's missive on capital instruments from the UK accounting standards board is very much in the mould of Professor Tweedie's revolution. By making clear distinctions between debt, equity and quasi-equity the proposed rules will lead to a proliferation of categories on the face of the balance sheet. The new shape of the profit and loss account has already muddied simple measures of company performance such as earnings. The new rules will do much the same job on gearing.

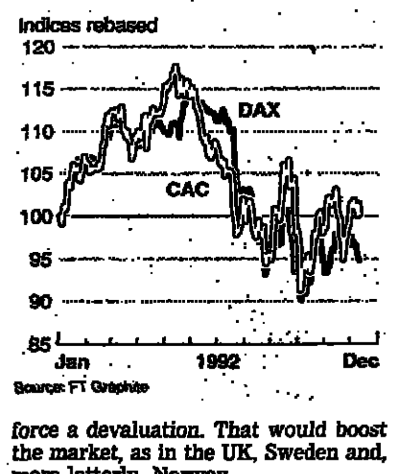
Financial engineers will doubtless feel deprived of the opportunity to dress up debt as equity. The supply of convertible capital bonds, for example, has notably dried up since the first tentative proposals for a tighter definition of shareholders funds, but the investment bankers should not protest too much. By creating a distinct home for non-equity shares on the face of the balance sheet, the accountants may open other doors.

Companies may be encouraged to issue second tier equity instruments such as preference shares. Banking regulators have long recognised prefs as a useful shock-absorber if the issuer runs into trouble. Banks have duly made full use of the opportunity. There is already evidence of interest among insurance and oil companies. Since preference dividends are paid out ahead of ordinary dividends, auditors are right to demand they are classified as a separate tier. If that encourages the market to look at the economic substance of instruments – rather than bald balance sheet ratios – so much the better.

France

Nervousness surrounding the franc has left the French stock market delicately poised. Having shed the strong gains of early this year, share prices are oscillating in a narrow range and equity strategists are groping for a convincing story. Without some resolution of the currency uncertainty, it may be a while before the CAC 40 Index makes a decisive break.

The bull argument suggests that, although the French economy is quickly cooling, it remains among the soundest in Europe and that the market is fundamentally cheap. The current CAC rating is only 14 times next year's forecast earnings – which may anyway be pushed higher by possible cuts in interest rates. The unspoken hope is that the strains within the exchange rate mechanism may yet



force a devaluation. That would boost the market, as in the UK, Sweden and, more latterly, Norway.

Such upward pressures, however, are offset by a stream of gloomy news from the corporate sector and a slippage in earnings forecasts for individual stocks. It does not help that the Parisian property market seems to have become caught up in problems similar to London's. As long as the *franc fort* remains inviolable, the Bundesbank's intransigence will delay interest rate cuts hastening a downward market slide.

Even if the currency tension was resolved, however, the market would then be looking forward to the government elections next March. Historically, the CAC has often proved strong in the first half of the year, only to tail away as the year progressed. Unless there is a devaluation, it could reverse the pattern next year.

UK insurance

The Association of British Insurers should have known better than to get into a public confrontation with the government over cover for acts of terrorism. Its inflexible demand for extension of full government cover to mainland Britain risks jeopardising the chances of a workable compromise. The industry needs one, though, to secure the continuing goodwill of both the government that regulates it and its large commercial customers.

This is not to deny the industry's point. Continental reinsurers are unwilling to continue sharing terrorism risks, which would leave the UK insurers unacceptably exposed. Without the benefits of reinsurance, April's bomb in the City of London would have swallowed up most of the additional capital raised recently by the likes of Royal Insurance and Commercial Union. The proposed insurance pool looks sensible. A similar arrangement covering atomic energy risks provides something of a precedent. The problem is one of capacity. Without near universal participation by the insurers the capital in the pool would hardly cover the risks. Yet the reinsurers will doubtless be no more willing to join the pool than to assume the risk in a conventional manner.

That suggests the government may have to step in, perhaps as a reinsurer of last resort. Even if an agreement is forthcoming, though, both sides will have to work fast to put adequate protection in place in time for next year. It would not help the UK's *international competitiveness if companies could not fully insure their premises.*

Isosceles

Isosceles' bankers now face an acute dilemma: either they pay up and let the Gateway grocery chain live, or clam up and watch it die. With interest payments still rolling up at an alarming rate and trading conditions deteriorating by the day, the Isosceles buy-out vehicle desperately needs more money. The company is inexorably heading for its third refinancing in as many years.

It is, of course, natural for bankers to spread bad debts over a long time to minimise one-off shocks, but inactive delay may be self-defeating. If the company were broken up now its assets might at best fetch only half the £1.2bn which the banks are still owed. On its present course they are likely to be worth still less two years down the line. The banks may yet decide that their best hope of recovering the shortfall lies in installing pragmatic management with enough cash to reignite growth. Although trading has been badly hit, Gateway still has a sound core which may make £110m operating profits this year. Some of the new formats Gateway has launched also seem worth backing. A flotation may be a pipe-dream but future sales of assets at better prices may yet provide an exit route.

The banks will clearly worry about throwing good money after bad – especially as their original loans look increasingly like equity. With Gateway's main rivals opening 250 new superstores in the next three years, competitive attrition will hardly slacken. But the banks are already hurting; boldness may be the only way to save them from more bruises.

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Kuwait's difficulties in Spain widen

By Peter Bruce in Madrid

THE financial difficulties at Grupo Torras, the Spanish investment arm of the Kuwait Investment Office which this month filed for receivership, have spread to other parts of the Torras empire.

Prima Inmobilaria, the company's large property affiliate, has filed for court protection against creditors. The move is widely seen as a serious threat to another Torras subsidiary, Torraspapel, Spain's biggest paper company.

The news of the Prima filing came as KIO officials met in London over the weekend to contain a crisis of confidence in the KIO itself, which has been left with losses of $4bn following its investment thrust into Spain.

Some international banks are studying ways of acting against the KIO if Torras and its affiliates do not repay their borrowings.

Bank creditors to Torras and its companies met last week in Madrid with KPMG Peat Marwick, which has been appointed to replace Torras' Kuwaiti managers during the receivership. Banks are insisting on accelerated repayment of loans from Torras affiliates, which, like Torraspapel, are not legally affected by the parent company's receivership. Formal approval for the Torras receivership was given by a Madrid judge last Friday, a move which immediately triggered the Prima filing.

Bankers in Madrid say Torras' financial plight may have been overstated. While the Kuwaitis insist all $4.5bn invested in Spain since 1986 has been lost, KPMG Peat valued the group at Pta2.9bn ($25.43m) just over a year ago and warned Kuwait that if it tried to sell assets in a poor economic climate it risked taking substantial losses.

KPMG also advised the Kuwaitis to treat Torras debt to the KIO as equity. But in receivership papers filed in Madrid the Torras liabilities are shown as $2.4bn, of which $1.6bn is debt to the KIO.

Prima, Spain's third largest property developer, filed for receivership on Saturday along with its biggest subsidiary, Urbanor. The two have liabilities of $1bn, owed mainly to Spanish banks.

The KIO, through Torras, owns just over 30 per cent of Prima, though former Spanish managers say the true holding is close to 70 per cent.

INSIDE

Report highlights Tarmac's problems

Further evidence is emerging of the financial problems facing Tarmac, the UK housebuilder. It is awaiting a management consultancy report which will add weight to forecasts of large losses for 1992. The report, by accountants Coopers & Lybrand, is expected to arrive in the boardroom within a fortnight. **Page 20**

Bock may move to London

Mr Tiny Rowland's threat to transfer the domicile of Lonrho to Germany has surprised advisers acting for Mr Dieter Bock, who is buying Mr Rowland's stake. Mr Bock, the German financier, expects to move to London if he decides to take up the seat on Lonrho's board. **Page 20**

Surprise at S&P move

UK life insurers were surprised at the attempt by Standard & Poor's, the international credit-rating agency, to rank them according to their financial strength. Actuaries and analysts were prepared to accept S&P's central claim that life office strength has been reduced in the last five years and that solvency margins will remain permanently lower. But many attacked the wisdom of classifying individual offices into three categories on the basis of publicly available information alone. **Page 20**

Giving a XXXX for cultural icons

The caricature of an Australian is a man wearing an Akubra hat and Drizabone raincoat, driving a Holden car, and eating Vegemite sandwiches washed down with Castlemaine XXXX beer or a glass of Jacob's Creek wine. These locally-made products are cultural icons, yet only Akubra is Australian owned. Concern about the level of foreign ownership is beginning to emerge. **Page 21**

Gilts buoyed by inflation

Gilt prices were buoyed by better than expected news on inflation, although a continuation of the obdurate stance by the Bundesbank on interest rates reduced demand for short-dated bonds. **Page 22**

Christopher Parkes on why the German steel maker has had to file for protection

Klöckner seeks cover from storm in the market

Klöckner-Werke, Germany's little fish in the shark pool of the world steel market, grew legs three years ago and made a dash for dry land.

But it was not fast enough. Loaded down with debts of DM2.7bn, ($1.69bn) enfeebled by tumbling steel prices, and latterly tripped up by the sudden slump in the German motor industry, it stumbled into the protective custody of the courts last Friday.

Desperate to catch its breath, Klöckner applied for protection from its creditors and permission to start negotiating to write off 60 per cent of the debts accumulated by its two steel divisions and the parent, Klöckner AG.

Warrants for the proposed 40 per cent settlement are to be issued by the Klöckner Mercator Maschinenbau (KMM) subsidiary, in which the still-profitable motor components, plastics and engineering businesses are bundled together.

According to chief executive Mr Hans Christoph von Rohr, this "technical financial operation" will set the group back on the road to survival. Since Deutsche Bank, the group's biggest creditor and Germany's biggest bank, has already promised its full support for the rescue, it may be safely assumed that the composition proceedings will be successfully completed within the scheduled maximum of six months.

Then, according to conventional wisdom, the worst of the current international economic crisis should be over. The extent to which Klöckner will share in the upturn, and the form in which the stricken concern survives, remain to be seen. But the group will be coming from a long way back. It emerged limping from the last cyclical downturn in steel, under-capitalised and over-focused on low value-added products such as building steel. It has paid only one dividend in the past 18 years. Although Mr von Rohr appeared unruffled last week, the group is technically insolvent – a whisker away from bankruptcy – and in the undignified position of being only the first significant German group to run for cover in composition proceedings in the past decade.

Klöckner started to come to grips with its weaknesses in the late 1980s. In 1989, when steel and steel processing still accounted for 90 per cent of sales and 100 per cent of profits, it began a process of accelerated evolution. In a bid to add value to its core business, it took on Finnish and Japanese partners to build a DM400m hot galvanising mill in Bremen. Designed to supply Japanese car plants in Europe, it is due to start work next year.

But a key shift was diversification into motor components, a path already established by larger competitors such as Mannesmann, Hoesch and Krupp. In 1989 it bought Kautex, a plastics company making vehicle petrol tanks. A year later it paid DM400m for Eurotec, a mouldings concern dependent on motor makers for 85 per cent of sales. Plastics are now the group's single biggest source of turnover. Meanwhile, other businesses – drinks machines and bottling plant manufacture – were added for good measure.

But Klöckner's new legs have proved neither long enough nor strong enough to carry the group out of the trough. Plastics and mechanical engineering made operating profits of just DM65m last year, as losses in steel climbed from DM35m to DM200m.

Meanwhile, prospects are dimming for key parts of KMM dependent on the automotive industry. German motor vehicle production is falling fast. Leading manufacturers including Mercedes-Benz and Volkswagen, which earlier this year unveiled plans for huge medium-term job cuts, have lately announced extensive short-time working in the first quarter of the new year. According to some estimates, German car output will fall by 500,000 in 1993.

The knock-on effects on suppliers were highlighted over the weekend when ZF, the gearbox and transmissions specialist, said orders in the past few months had been between 15 and 20 per cent down on last year. The company, which reported an operating loss in 1991 and expects further deficits this year and next, said it was to cut its workforce by 1,200. Car body press maker Schuler unveiled plans to reduce its payroll by a quarter.

Crisis in the international steel market has been apparent for far longer. A slight improvement in prices noted in Germany in the first quarter of this year evaporated with the arrival of spring. According to Mr von Rohr, prices are now DM150 a tonne lower than two years ago.

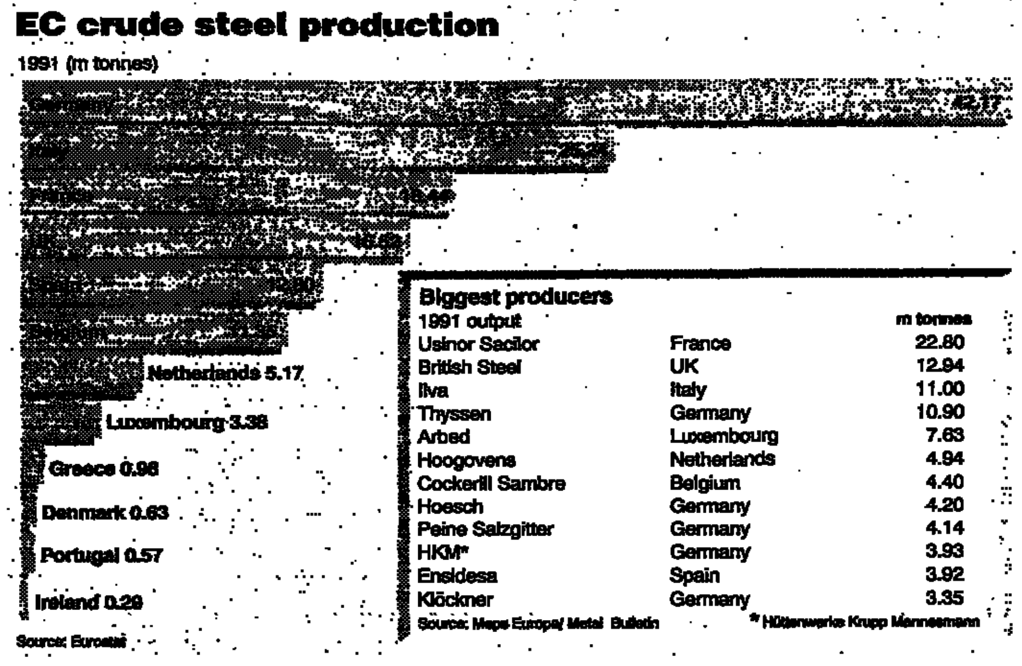
While pundits argue over whether conditions arise from structural or cyclical sources, losses and tensions are mounting. Eurofer, the European Community steel makers' association, has asked the commission for Ecu4bn ($4.92bn) in assistance for a restructuring plan which will cost 50,000 jobs. According to some estimates there is a surplus annual capacity of 40m tonnes in the EC. At the same time, the US authorities are preparing to impose countervailing duties and anti-dumping charges on a range of EC products.

In such conditions, shutting down Klöckner's 3m-plus raw steel capacity seems the logical and inevitable outcome. A takeover by either of the leaders in German steel – which also have substantial motor component interests – would almost certainly run into opposition from the Berlin cartel authorities. In any case, Thyssen and the recently-merged Krupp/Hoesch group which each have around 10m tonnes a year capacity, have problems of their own. Western German steel production fell by 20 per cent in November, due in part to Thyssen's temporary closure of a quarter of its capacity.

One lingering sign of hope lies in the continuation of collaboration negotiations between Klöckner and Hoogovens of the Netherlands, which were expected to be completed by the end of January. The process may take longer now that the weaknesses of the would-be partner from Germany have been so brutally exposed. If a bargain is struck it is more than likely to be on Hoogovens' terms: as Mr von Rohr has discovered, there is more mercy in the courts than the marketplace.

EC crude steel production

1991 (m tonnes)



Source: Eurostat

Biggest producers

1991 output		m tonnes
Usinor Sacilor	France	22.80
British Steel	UK	12.94
Ilva	Italy	11.00
Thyssen	Germany	10.90
Arbed	Luxembourg	7.63
Hoogovens	Netherlands	4.94
Cockerill Sambre	Belgium	4.40
Hoesch	Germany	4.20
Peine Salzgitter	Germany	4.14
HKM*	Germany	3.93
Ensidesa	Spain	3.92
Klöckner	Germany	3.35

Source: Meps Europe/ Metal Bulletin * Hüttenwerke Krupp Mannesmann

US groups combine work on electric car

By Martin Dickson in New York

AMERICA'S big three car makers – General Motors, Ford and Chrysler – are to co-operate much more closely in the development of electronic vehicles.

The trio have signed an agreement to investigate co-operation in the design, development, testing and possible manufacturing of electric vehicle components which would ultimately be used in each company's own vehicles.

The announcement comes as financially-troubled GM, the biggest of the three US groups, scales back its much-vaunted solo effort in the field of electric vehicles.

The venture will take place under the auspices of the US Council for Automotive Research (Uscar), an umbrella body which co-ordinates research among the big three, and it will aim to find "the most effective way to hasten electric vehicle development".

Electric vehicles are currently uneconomic but California has insisted that carmakers begin offering "zero emission" vehicles – in other words, electric cars – by 1998 if they are to sell other models in the state. Japanese manufacturers are also intensively investigating electric vehicle technology.

GM, which for years has trumpeted plans to have its plastic-bodied Impact electric vehicle in commercial production by the mid-1990s, now appears to have quietly dropped that plan because of the severe financial pressures facing the group.

GM said it would produce up to 50 electric vehicles next year which would be provided to utilities, local governments and others for technical feedback. However, GM has also reportedly told hourly workers who had expected to build the Impact of an indefinite delay in commercial production plans.

Detroit's big three have co-operated increasingly in recent years – in areas ranging from vehicle research to political lobbying – as competition from Japanese manufacturers has intensified. Uscar is already looking at advanced battery technology for electric vehicles.

The alliance unveiled on Friday goes beyond previous joint ventures into possible parts manufacturing. This might have caused anti-trust problems but the companies evidently believe the competitive threat from Japan will over-ride any monopolist concerns in the Clinton administration.

Frustration over blackout on UK trade figures

Economics Notebook
By Emma Tucker

The blackout to be imposed on the UK's trade figures from January 28 is bound to lead to intense speculation on what is happening to the economy.

A new set of figures will replace the old system in June, but by then a more-than-usually interesting period for UK import and export flows will have passed, much to the frustration of all those tracking the long-awaited economic recovery.

Will the volume of UK exports to the EC be rising on the back of the devalued pound, or will recession in Germany spell gloom for UK and other European goods?

Will the higher cost of imports push the visible trade deficit wider? And will a pick-up in consumer demand mean rising inflows of imports?

Behind the loss of this important information lies Intrastat, the new system for collecting trade data to be adopted by each of the 12 member states of the EC in January.

It was developed by the European Commission to tie in with the completion of the single market at the end of this year.

Data on commerce with the rest of the world will still be available, but since more than 50 per cent of the UK's external trade is generated in the EC, these figures will provide only a patchy picture.

The abolition of border requirements and formalities means that customs declarations, the current source of trade statistics, will no longer be required.

To keep track of trade flows, Intrastat will require all businesses registered for VAT to fill in two extra boxes on their VAT forms showing the total value of exports to and imports from other member states.

Bigger companies will also have to complete a monthly report.

The introduction of any series of statistics is fraught with complications.

"We'll spend the first three months sending back forms to the hundreds of people who fill them in incorrectly," said the CSO. This is why the agency has given itself a gap in which to get the series oiled before presenting the numbers to the public.

Nonetheless, many are wondering why the new system was not introduced earlier to run alongside the old series.

This would have avoided an interruption in the trade figures just when economists will be looking for the full effects of sterling's recent devaluation on the UK's trade position.

Only the very cynical would suggest that the UK government had calculated the blackout, but the absence of sensitive trade figures for the first half of next year could turn out to be very convenient.

"This is a genuine loss of information at a time when most people are expecting the trade position to worsen," says Ms Ruth Lea, chief economist at Mitsubishi Bank in London. "The trade figures are a vital piece of the jigsaw that tells us what is going on in the economy."

Without the data economists will probably fear the worst and speculate that the so-called J-curve effect – whereby import prices rise faster than export volumes – will force the deficit on the current account wider.

This, in turn, could lead to selling pressure on the pound.

The public will also have to wait to find out what one of the most important parts of the 1992 initiative - the abolition of customs frontiers - is doing for trade flows.

The CSO says it decided against an overlap between the old and the new systems to avoid putting too heavy a burden on businesses.

It also points out that other member states of the EC are facing similar problems and that their trade figures will also be subject to delay.

Some continental officials are blaming Eurostat, the EC statistics office.

The switch from one system of collecting the trade figures to another was always going to be arduous, but there is a feeling among observers that Eurostat took a rather cavalier attitude to Intrastat in the belief that a rapid move to monetary union would soon render intra-EC trade figures irrelevant. "The EC gave the impression that they did not attach much importance to Intrastat," said one senior European economics official.

"It would have been sound practice to have the new system running side by side with the old system in order to get feedback from one to the other." Eurostat insists that running the two systems together would have been impractical.

Furthermore, original plans for administering Intrastat had to be scrapped in 1989 when the Council of Ministers rejected plans for changing the way VAT is collected.

But with only one month to go before the switch is made, there have been complaints from UK businesses that they have not received the information, paperwork and guidelines they need in order to comply with Intrastat's new, and legally binding, requirements. Spain, Italy and Portugal have allegedly not issued details of the procedures companies must follow.

Other EC countries have not requested six months to rehearse the system before publication, but they too have their doubts about Eurostat's timetable which suggests the first sets of figures should be ready for publication by March.

"Statistical offices in countries like Germany and France will be under a lot of pressure from their big users if they do not provide information in the first three to four months," said a Eurostat administrator.

The Germans, sensitive to their trade position since unification wiped out a healthy surplus on their visible trade balance, say they will produce an estimate in April. "This is our plan, but not our promise," said a spokesman from the Federal Statistical Office in Wiesbaden.

In Denmark, they believe the official timetable is unrealistic. The statistical office said it did not expect to produce the results of Intrastat until June at the earliest.

Given the likely sensitivity of intra-EC trade figures next year and the confusion that Intrastat appears to be generating in certain quarters, it could be that the UK approach of saying nothing will turn out to be the most prudent.

Banks near to debt deal with Anglo United

By Roland Rudd in London

ANGLO UNITED, owner of Coalite, the UK smokeless fuel business, is close to reaching an agreement with its banks over a debt-for-equity swap.

Under the terms of the restructuring plan, the banks would write off £110m ($167m) of the group's £240m debt in favour of taking new ordinary and convertible shares and a zero-coupon bond.

Anglo, which mostly financed its £500m takeover of Coalite in 1989 through debt, has recently run into difficulties in repaying borrowings from cash flow and disposals.

Last year's mild winter and continuing recession dented profits before tax, which fell from £15.7m to £8.3m for the year to end March. The group's disposal programme of its non-core businesses has also been adversely affected by the recession.

The restructuring plan involves the banks taking new ordinary shares set at a premium to Anglo's existing share price which on Friday closed at 7½p.

Existing shareholders, who would retain more than half of the enlarged equity, are to be offered warrants at the same price that the new ordinary shares are to be offered to the banks.

A financier involved in the deal said: "There has been some very tough negotiations between the banks and the company. The most bruising aspect has been management's insistence that existing shareholders should retain more than 50 per cent of enlarged share capital."

COMPANIES AND FINANCE

Rowland's threat to move Lonrho surprises Bock

By Roland Rudd

MR TINY Rowland's threat to transfer the domicile of Lonrho to Germany has surprised advisers acting for Mr Dieter Bock, who is buying Mr Rowland's stake.

Mr Bock, the German financier, expects to move to London if he decides to take up the seat on Lonrho's board, after completion of the rights issue on January 15. According to one adviser the idea of transferring Lonrho's operational headquarters to Germany is the first he has heard of it. "None of this has been discussed with Mr Bock," said the adviser.

In an interview with The Observer, which is owned by Lonrho, Mr Rowland said: "If I felt the company would be better understood and receive greater support, we would be quite prepared to move our headquarters to Germany."

Mr Bock is underwriting half the 200m shares in the three-for-10 rights issue at 85 per share, taking up Mr Rowland's rights, and buying half his 15 per cent stake at 115p a share with an option to buy the other half in three years time.

Following the rights and sale of VAG, the Volkswagen/Audi import and distribution operation in the UK, for £124m, Mr Rowland is predicting that Lonrho's net debt will soon fall below £700m, against £947m at September 30.

Further asset sales are planned, including some of the 4,300 flats which Lonrho owns in western Germany.

It is understood that while Mr Bock has not discussed changing Lonrho's domicile to Germany, he believes continental Europe will be an increasingly important trading area.

This has encouraged further speculation that Mr Bock may be in favour of re-opening the talks with Gencor, South Africa's second largest mining group, over the future of Lonrho's 73 per cent controlling stake in Western Platinum.

Mr Brian Gilbertson, head of Gencor, is keen to merge his platinum interests with Lonrho's to create the world's biggest platinum group.

Provisions could push Tarmac to £200m loss

By Peter John

FURTHER evidence is emerging of the financial problems facing Tarmac, the UK's biggest housebuilder. The company is awaiting a management consultancy report which will add weight to losses forecast for 1992 of some £200m.

The report, by accountants Coopers & Lybrand, is expected to arrive in the boardroom within a fortnight. It will concentrate on Tarmac's properties division, which contributed to a pre-tax loss of £15.1m in the first half of this year.

On Friday, the construction group announced the resignation of Mr Tony Collins, the chief executive of the properties division. Tarmac said at the time of the interims in September that it was scaling back its property side, and stated yesterday that Mr Collins, who joined the main board in 1989, would not be replaced.

A spokesman for the company said of the Coopers analysis: "It is not completed yet. The fact that there are going to be provisions is not new but the Coopers report will quantify those provisions. It is part of the new chief executive's thorough review of all aspects of the group."

The impact on the figures depends on whether the write-downs are included below or above the pre-tax line. Assuming they are above, some analysts believe the total deficit will be £200m with the most pessimistic going for £300m.

Mr Mike Betts, a building materials and construction analyst with US investment bank Goldman Sachs, said he expected write-downs on housing and property to result in Tarmac "declaring a substantial pre-tax loss this year of up to £200m." That would compare with a 1991 profit of £21m after provisions.

In September Tarmac said it was cutting the number of homes it builds by up to a fifth, pulling out of commercial property development and raising cash to cut debts by disposals.

Being forced towards more accountability

John Authers looks into the impact on life companies of Standard & Poor's ratings

THE usually staid ranks of the UK's life insurers were shaken into uproar last week at the attempt by Standard & Poor's, the international credit-rating agency, to rank them according to their financial strength.

Actuaries and analysts were prepared to accept S&P's central claim that life office strength has been reduced in the last five years and that solvency margins will remain permanently lower.

But many attacked the wisdom of classifying individual offices into three categories on the basis of publicly available information alone.

Falling property values and disappointing equity markets in the last five years have cut heavily into the assets and reserves of life companies. Meanwhile, costs of distribution have increased since the Financial Services Act, 1986, which led insurers to raise commissions and establish costly ties with building societies and banks. S&P says that many offices are "suffering severe expense inefficiencies".

This has led to widespread falls in the free-asset ratio, the most commonly used crude measure of strength. This measures the proportion to which an office's assets exceed its liabilities to policyholders.

Even Standard Life, the UK's largest mutual life office and awarded the top AAA ('Superior') claims-paying rating by S&P, has seen its ratio fall from 22.9 per cent in 1986 to 12.6 per cent in 1990. Over the same period Legal & General, the UK's fourth largest life insurer and also rated at the highest level by S&P, has suffered a decline from 30.5 per cent to 13.9 per cent.

Several companies have taken evasive measures to avoid capital strain, by cutting policyholders' annual bonuses, and by switching from equities and property into fixed interest securities, which are valued more favourably under the DTI's stringent solvency requirements.

When this happens, pay-outs to policyholders are hit. This has led to greatly increased interest in financial strength among the independent brokers on whom the longest established "with-profits" offices are dependent for much of their business. The actuarial calculations involved are complicated, but several leading independent financial advisers have called for a simple rating for life office strength.

S&P is bidding to fill this gap in the market, and its importance was demonstrated by the immediate impact on National Provident Institution, one of the four companies it described as "vulnerable". Within an hour of its London office opening on Friday, 20 alarmed policyholders had telephoned asking to cancel policies.

However, it is difficult to classify life offices solely on the basis of published information and DTI returns, as different actuaries use various assumptions when valuing liabilities. Changing the assumption on future interest rates can drastically alter an office's total liabilities.

This means that free-asset ratios and other crude measures can prove individual offices have weakened, but not necessarily that one office is stronger than another.

"Information available from published sources can provide only a broad indication of the relative financial strength of life offices. In particular, no comparison is meaningful unless full account is taken of the degree of conservatism inherent in the determination of liabilities since there is considerable variation between companies," says R Watson, consultant actuaries.

All the four companies branded as "vulnerable" complained they had not been consulted. NPI, which could be seriously damaged by S&P's rating as most of its business comes from independent advisers, quickly issued a rebuttal, supported by R Watson.

Mr Bernard Brindley, NPI's chief actuary, pointed out that it used a conservative valuation policy – in other words, it assumes future interest rates will be relatively low at 4 per cent. Meanwhile it has kept 65 per cent of funds in equities.

This is lower than some offices which have high free-asset ratios, such as Pearl, with 81 per cent invested in equities, but remains higher than offices such as Scottish Equitable (48 per cent) and Guardian Assurance, another to receive an S&P "vulnerable" rating, with 38 per cent.

Mr Brindley also pointed out that NPI's free-asset ratio was only slightly lower than those of several other similar-sized offices, and suggested that singling it out for a "vulnerable" rating was arbitrary.

S&P's ratings may, therefore, be too blunt an instrument to apply to such a complex topic.

But the insurers' howls of anguish do reveal one problem which the industry must address. One consulting actuary put it this way: "If you always put about the message that strength is important but life offices cannot be compared, it's a natural consequence for someone to come along and say that if the best information isn't published, then they'll just have to rely on published information. It's the sort of service financial advisers need to do their job properly, and the offices will have to put up with a degree of arbitrariness."

Life insurers have come under increasing pressure from both regulators and the press to be more open about their charges and accounts this year. And none denies that the industry as a whole has weakened. The dispute over the S&P ratings is the latest chapter in a story which seems to be moving towards a more open and accountable industry.

● *S&P's UK Life: Financial Strength Digest, available from Standard & Poor's Insurance Rating Services, 7th Floor, Garden House, 18 Finsbury Circus, London EC2M 7BP. Fax 071 638 1025. Price £49.*

Martin Bierbaum to be sold this week for £25m

By Angus Foster

MARTIN Bierbaum, the international money broker under the control of bank creditors to Mr Gary Klesh's Quadrex, is expected to be sold later this week to Trio Investment, a small investment trust controlled by Mr David Hagan, formally at rival money broker Tullett & Tokyo.

It will pay £25m for Bierbaum, which has more that 700 employees and is prominent in the US dollar against DM spot market.

Trio, which suspended its shares when heads of agreement on the deal were signed in July, is raising the money through a £15m placing and £10m rights issue underwritten by Smith New Court.

Shareholders will also be asked to approve the switch from investment trust status to a holding company for the international trading of money, securities and derivatives.

The share suspension will be lifted if shareholders give approval at an egm scheduled for mid-January.

Drayton Recovery revenue at £796,000

Drayton Recovery Trust, which was launched last year, reported net asset value of 77p as at October 31. Net revenue for the period from August 23 to the end of October was £796,000 for earnings per share of 9.63p.

A final dividend of 3.95p is proposed making a total for the period of 7.95p.

Arrangements advanced for sale of 25m Teva shares

By Andrew Jack

ARRANGEMENTS are well advanced for the sale of the 25m shares in Teva, the Israeli pharmaceutical group, which are owned by the Common Investment Fund – the pot into which the Maxwell pension funds were pooled for investment.

Mr Neil Cooper of accountants Robson Rhodes, liquidator to Bishopsgate Investment Management, manager and trustee of the Maxwell pension funds, said that a sale was expected "in the New Year".

He would not specify a date, stressing that this was market-sensitive information, but said the Teva shares "were not necessarily ones we want to hold on to".

However, he had just approved the appointment of County NatWest, the investment house, as advisers on the sale of the shares.

The Teva shares were valued at £25m last summer and are now estimated to be worth more than £40m.

The shares were voluntarily returned to the pension funds in June this year by National Westminster Bank, which had been pledged them as security for a $27.3m (£17.9m) loan to Robert Maxwell Group, a Maxwell private company, two days after Robert Maxwell's death.

Any distributions of the money to the pensioners is subject to continuing disputes over claims on ownership between trustees to the five Maxwell pension funds which contributed to the CIF.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Volkswagen (Germany)	VAG (UK)	Car distribution	£124m	Part of Lonrho sale package
McCown DeLeeuw (US	US unit of Pacific Dunlop (Australia)	Stationery & furniture	£91m	Pacific Dunlop continues sales
Forte (UK)	Sogerba (France)	Hotels & catering	£64m	Larger European presence sought
Mr Dieter Bock (Germany)	Lonrho (UK)	Trading	£135m	Stake sale tiny bit controversial
Skoda-Plisen (Czech)/ Dorries Scharmann (Germany)	Joint venture	Steel-cutting equipment	£20m	Skoda-Pilsen's production taken over
United Newspapers (UK)	M&T Publishing (US)	Publishing	£11.6m	Expansion via local arm
Hepworth (UK)	AWB (Netherlands)	Gas boilers	£10.2m	Strengthening European operations
Gillette (US)	Wizamet (Poland)	Razor blades	£1.0m	Privatisation deal
British Airways (UK)	Qantas (Australia)	Airlines	n/a	BA bid lodged
Singapore Airlines (Singapore)	Qantas (Australia)	Airlines	n/a	SIA bid lodged

Pacific Telesis to split itself into two

By Martin Dickson in New York

PACIFIC Telesis, the California-based local telephone company, is to split itself in two under plans to spin off the company's wireless communications business.

The move, a unique departure by a "Baby Bell" regional telephone company, is aimed at taking advantage of the increasingly competitive US and international telecommunications markets.

Mr Sam Ginn, chairman of the group, told the Financial Times that the move signalled the company "intends to be a world competitor in wireless telecommunications," taking advantage of global privatisation trends.

Pacific Telesis is to spin off its wireless business, which has annual sales of around $1bn, into a company separate from its local telephone operations, which serve most of California and large parts of neighbouring Nevada and have a turnover around $9bn.

The US local telephone market is slow growing, highly regulated and, while still essentially a monopoly, subject to increasing competition for business customers. The wireless communications market is lightly regulated and growing extremely rapidly, both in the US and other developed countries.

Pacific Telesis is one of the largest providers of cellular telephone services in the US and also has a sizeable paging business and a fledgling vehicle tracking operation. It has cellular operations in Germany, Portugal and Japan, and other wireless interests in France, Spain, Thailand and South Korea.

The spin-off, expected to take about a year, is the biggest structural change by one of the seven "Baby Bells" since their creation in 1984, when AT&T was forced to spin off its local operations in a court-ordered anti-trust settlement.

Mr Ginn said the creation of two separately traded companies should mean better value for shareholders, since financial markets tended to place a higher value on single focus organisations.

The wireless company will be known as Pactel Corp and will raise about $750m of new equity during the spin-off, which will involve a tax-free distribution of the parent company's stake to existing shareholders.

Pactel will be headed by 55-year-old Mr Ginn, while the new chairman of Pacific Telesis will be Mr Phil Quigley, 50, president of its Californian phone company, Pacific Bell.

Mr Ginn said the split would give Pactel greater ability to raise capital and attract partners in overseas ventures. It may also give it a greater chance to acquire licences in the US for a second generation of mobile telephones, known as personal communications services, which the US government intends to license over the next few year. The Federal Communications Commission has indicated a bias against giving these licences to companies which already hold cellular licences in a particular area.

Mr Ginn said Pactel could enter the long-distance market itself or contract for the services of existing suppliers. AT&T, the leading US long-distance carrier, itself underlined the growing links between the two markets last month when it announced plans to take a 33 per cent stake in McCaw Cellular, the largest US cellular carrier.

Mr Ginn added that while Pactel had no manufacturing ambitions, it may wish to take an equity stake in an equipment company as part of the development of its services.

Australia faces an identity crisis

Kevin Brown reports on the growing level of foreign ownership

Unfair dinkum: authorities take a relaxed view of the movement of company ownership abroad

Picture a typical Australian. He wears an Akubra hat and Drizabone raincoat, drives a Holden car, and lunches off Vegemite sandwiches washed down with Castlemaine XXXX beer or a glass of Jacob's Creek wine.

Many Australians would see such a "typical Aussie" as a caricature. But most would also regard the locally-made products as cultural icons, each of which expresses something about what it means to be Australian.

Yet only Akubra is Australian owned. Holden and Vegemite are US-owned, Castlemaine is run from New Zealand, Drizabone is British, and Jacob's Creek, part of the Orlando Wyndham group, is French.

These are not isolated cases. More than half of the Australian beer industry is foreign-controlled, as is about 70 per cent of processed food production, 90 per cent of daily newspaper circulation, and much of the wine industry.

The Labor government has taken a relaxed view of the growing level of foreign ownership, arguing that each case should be dealt with on its merits. The Foreign Investment Review Board approves 95 per cent of applications from overseas companies to acquire stakes of more than 15 per cent in Australian companies.

But concern about the level of foreign ownership is beginning to emerge among economic nationalists such as Mr Harry Palmer, president of the Australian Owned Companies Association, who wants a ban on further foreign acquisitions. Most attention is focused on a gradual restructuring of the food industry, which analysts say could leave Australia without a single locally-owned major manufacturer.

The most recent deal is a A$430m ($296.8m) offer by United Biscuits of the UK for the snacks business of Coca-Cola Amatil, which will transfer 56 per cent of the Australian snacks market to British hands.

The deal is not typical because the snacks business is in effect being transferred from one foreign owner to another – CCA is itself 51 per cent owned by Coca-Cola, the US drinks company.

However, Mr Jonathan Rabinovitz, food industry analyst at Potter Warburg Securities, says it provides a good illustration of the three main driving forces behind the restructuring.

These are: shedding of non-core businesses by companies which expanded their product mix in the 1980s; expansion of core food activities by the major manufacturers; and growing international interest in Australia and New Zealand as a base for building business in the rapidly expanding Asian market.

Mr Rabinovitz says the deal allows CCA to concentrate on its profitable beverage bottling business, while adding to the core business of UB by delivering market leadership in an important regional market.

UB has also made clear that it sees the deal as an opportunity to establish an Asia-Pacific bridgehead from which to compete with PepsiCo, the US soft drinks company, which it is battling for worldwide market share.

Some of the same driving forces can be identified in other recent food industry developments, including:

- The NZ$566m ($292.6m) purchase by Heinz, the US food group, of the Wattie food business in New Zealand from Goodman Fielder Wattie. Mr Tony O'Reilly, Heinz chairman, has made clear that he plans to use Wattie's efficient plants to attack the Asian market.
- GFW's A$330m acquisition of the Uncle Toby's food group in Australia as part of its attempt to become the biggest manufacturer of cereal-based branded food products in the Asia/Pacific region.
- The acquisition by Pacific Dunlop of the Petersville Sleigh brands from the collapsed Adsteam group, formerly controlled by Mr John Spalvins. Pacific Dunlop already has a strong presence in Asia/Pacific markets.
- The battle for control of Arnotts, the Australian biscuit maker, for which Campbell Soup of the US is bidding A$8.80 a share, valuing the group at A$1.2bn. Campbell wants to use Arnotts to spearhead a major sales drive in Asia.

Arnotts has rejected the bid, and is basing its defence partly on an appeal to the FIRB to prevent ownership passing overseas, which it claims will involve no advantages in terms of technology or marketing skills.

Mr Rabinovitz says the strong attraction of Australia to international companies, combined with the relative weakness of the surviving locally-owned companies, suggests the Campbell bid is likely to be "just the beginning of the ultimate domination of the food sector" by multinationals.

"First, the low probability of successfully tackling the multinationals head on is unlikely to justify the risks ... of going it alone offshore without an alliance with a strong and already established multinational.

"Second, on their home front, Australian food companies [will] face a tough trading environment as the multinationals increase their already strong grip on the domestic market," he says.

Mr Rabinovitz suggests that the milling group Defiance Mills and the dairy-based companies National Foods and QUF Industries are prime candidates for takeover by one of the larger global players.

GFW, the largest food business in Australasia, is better protected, but has performed poorly in recent years and faces limited domestic growth opportunities.

"It makes eminent sense for GFW to seek a strategic alliance with one or more multinational food groups in the future. Alternatively, [it] may prove attractive to a major food group seeking to bolster its own core operations," he says.

Much may depend on the outcome of the Arnotts battle. The final decision on whether to allow the bid to proceed will be taken by Mr John Dawkins, the federal treasurer, who has said he will take into account Campbell's ability to assist Arnotts in increasing sales to Asia.

That is not the same as saying that the bid will be decided on grounds of economic nationalism, but it does mean that Campbell will have to convince Australians that the bid is in the national interest, as well as in shareholders' interests.

Setback for Israeli bank sale

By Hugh Carnegy in Jerusalem

THE Israeli government's faltering attempts to sell its majority shareholdings in the country's four leading banks have suffered a setback with the collapse at the weekend of an agreement to sell Bank Mizrahi to Mr Gad Ze'evi, an Israeli businessman.

The collapse leaves the government without any clear strategy for the sale of the banks – the other three are Bank Hapoalim, Bank Leumi and Israel Discount Bank – with only 10 months to go until an effective deadline for their privatisation.

Any bank unsold by October 1993 will fall under direct state control under the terms of the government's rescue of the banking system following a share collapse in 1983. The state spent $7bn buying up the majority of the banks' shares, but left management with the original owners under a preferential share system.

Once sold, the government's shareholdings will have equal voting rights, taking the banks back into full private ownership. But the failure to divest by next October could lead to full nationalisation, just as the government is trying to reduce the state's role in the economy.

Mr Ze'evi, who already owns the small Maritime Bank, agreed earlier this year to buy a 51 per cent stake in Bank Mizrahi, previously owned by the World Mizrahi religious movement, for $185m. But the Bank of Israel and the US Federal Reserve Board, which had to approve the sale of Bank Mizrahi's US subsidiary, delayed issuing Mr Ze'evi the necessary banking permits.

One dispute arose over Mr Ze'evi's intention subsequently to sell some of the holding to other investors. He demanded the Bank of Israel issue him a permit by last Friday, but it refused.

The government's strategy of placing through private tenders controlling stakes in the banks appears now to be in tatters. It had already been virtually discounted for Bank Hapoalim and Bank Leumi, the two biggest banks, because of their size. The likeliest alternative is large-scale flotations on the Tel Aviv Stock Exchange.

Macy posts $135m first quarter loss

By Nikki Tait in New York

R H. Macy, the US department store group which has been operating under Chapter 11 bankruptcy protection since the beginning of the year, has reported an after-tax loss of $135.8m for the three months ended October, the first quarter of its financial year.

The loss, however, came after reorganisation costs and interest expense items of $82.3m. Operating results – earnings before interest, tax, depreciation and amortisation – showed a $13.4m surplus. Macy said this was in line with expectations, and more than satisfied the covenants agreed with its bankers. Borrowings in October and November were also "significantly below projected levels," and Macy plans to repay all seasonal borrowings this week.

Sales, however, were $1.48bn during the quarter, down from $1.6bn a year earlier. In part this reflects the closure of some outlets, but total sales and same-store sales still fell by 3.3 per cent and 5.7 per cent, respectively, after the effect of the closures was stripped out.

In October alone, a fairly encouraging month for most retailers, Macy saw total sales advance by 0.6 per cent (excluding the closed stores), but comparable sales still dipped by 2 per cent.

Woodward's seeks protection

By Robert Gibbens in Montreal

WOODWARD'S, western Canada's biggest department store group, cannot meet debt repayments and has filed for bankruptcy protection.

The 100-year-old Vancouver-based chain, with 26 department stores and 33 smaller units throughout British Columbia and Alberta, is preparing a restructuring plan to be put before creditors by mid-February. It will mean more store closures and lay-offs.

Pfizer to increase R&D

By Paul Abrahams

PFIZER, one of the fastest-growing US drugs groups, is to increase its annual research and development spending to more than $1bn next year.

Mr Henry McKinnel, chief financial officer, said the aim was to increase the percentage of group sales from pharmaceuticals. During the first nine months of this year drugs generated 62 per cent of its $5.28bn sales compared with 54 per cent last year.

Mr McKinnel said the group would limit price rises on US prescription drugs to between 2 per cent and 3 per cent in the coming year. The announcement follows growing political pressure from Congress to limit price increases. A number of other groups, including Merck, the largest US drugs company, have undertaken not to raise prices or at least limit them to the rate of inflation.

The promise to increase investment in research and development by up to 20 per cent next year follows an 18 per cent rise to $756.8m in 1991. The investment is designed to help the group counter the expiry of patents.

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Prices buoyed by news on inflation

GILT prices were buoyed by better than expected news on inflation, although a continuation of the obdurate stance by the Bundesbank on interest rates reduced demand for short-dated bonds.

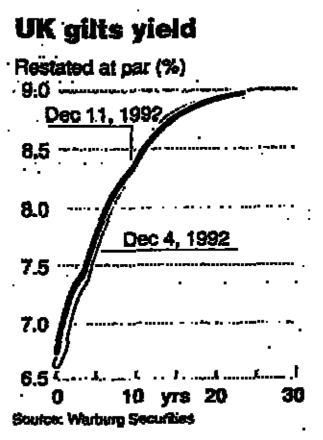
In thin trading, prices for the UK securities mainly moved sideways. However on Friday gilts moved up by 1 point at one stage on news that the retail price index rose by just 3 per cent in the 12 months to November, its lowest year-on-year increase in six years.

A day earlier, the Bundesbank council, as expected, failed to cut its interest rates due to continuing worries about high German inflation sparked by unification and soaring government deficits.

The lack of action on German monetary policy lifted the D-Mark against most European currencies, including the pound. Even though sterling is no longer formally tied to the D-Mark, Bank of England and Treasury officials are thought to be extremely nervous about the possibility of the pound falling much below its current level of around DM2.45.

As a result officials are expected not to want to run the risk of the pound falling by sanctioning any further reduction in base rates, now 7 per cent. While short-term interest rates in the UK appear to be unlikely to see any imminent changes, investor interest in purchasing short dated gilts is expected to be lukewarm.

UK gilts yield



Source: Warburg Securities

As well as worrying about the level of the pound, the Bank and the Treasury are also thought to be cautious about sanctioning a further cut in base rates on the grounds that there are small signs of a pick-up in economic activity.

Many politicians and industrialists would welcome a further cut in UK rates, which have come down by 3 percentage points since September when Britain left the European exchange rate mechanism. But before deciding on any further action on interest rates government officials will probably want to wait for further news as to how overall UK demand might have increased as a result of the easing in economic policy since sterling's devaluation.

With yields for short-maturing securities pushed up a fraction last week by the lack of strong expectations about base rate cuts in the near future, the focus switched to the longer end of the yield curve. Gilts in this part of the bond spectrum held out some attraction for investors, particularly after Friday's inflation news.

This class of securities saw some buying pressure after the inflation numbers showed the continuing weakness of demand at the retail level in the UK, a development likely to be good for gilts over the next few months. The year on year increase in the RPI in November – the headline number – showed a big decrease on the corresponding figure in the year to October of 3.6 per cent.

Meanwhile, the Treasury's favoured measure of underlying inflation – the RPI less mortgage interest payments – saw a fall from 3.8 per cent in the 12 months to October to 3.6 per cent in the year to last month. That is a further sign that growth in the UK economy next year is likely to be weak, a factor that can be expected to boost demand for long-dated gilts.

According to Mr Don Smith, an economist at Greenwell Montagu, figures for UK inflation are likely to be exceptionally important for the gilt market over the next few months, ahead of any surge in prices of imported goods sparked by sterling's devaluation.

Emphasising the message that underlying inflation is continuing to fall rapidly, an index compiled by Greenwell Montagu of "core inflation" fell from a year-on-year 3.4 per cent in October to a figure of just 3.1 per cent in November. In September the number had been 3.7 per cent.

The fall in the core index – which is the RPI, excluding not only mortgage payments but prices of petrol, seasonal food, electricity, gas and other items deemed to be subject to erratic price variations – is a further indication of extremely weak demand for many classes of retail goods caused by the lingering recession.

Peter Marsh

US MONEY AND CREDIT

Optimism at Clinton appointments

PRESIDENT-elect Bill Clinton, whose economic and fiscal policy utterances will dominate US credit market sentiment for months to come, saw his own credit rise several notches on a suspicious Wall Street last week as he announced his team of economic advisers.

The appointments gave Wall Street the most tangible indications yets of the likely economic priorities of a Clinton administration. And the credit markets, which generally associate Democratic administrations with the twin sins of increased government spending and inflation, were partially reassured by the politically centrist team they saw.

The market's over-riding fear is that the Clinton administration, committed during the election campaign to jump-starting the (then) ailing US economy, will go for an excessive fiscal stimulus early next year, just when US growth seems to be gathering momentum. The result could be renewed inflationary fears and a slump in bond prices.

The market's hope is that Mr Clinton, whose campaign pledges also included action to cut the federal budget deficit, will energetically apply himself to this goal, which would be positive for bond prices.

The membership of the Clinton economic team gives grounds for optimism not just that the emphasis will be on deficit reduction, but that the administration may be able to get genuine change through the Democrat-dominated Congress, which its Republican predecessor failed to do.

Mr Lloyd Bentsen, the new treasury secretary, knows Congressional fiscal policy-making inside out thanks to his many years as chairman of the Senate finance committee. Representative Leon Panetta, the new director of the Office of Management and Budget, has long been a strong advocate of deficit reduction.

Wall Street sceptics suggest the appointment of Congressional insiders could make Mr Clinton a prisoner of a free-spending Capitol Hill, but the president-elect's finely tuned political instincts seem more likely to produce the very opposite effect.

As Mr Edward Yardeni, chief economist at securities firm C.J. Lawrence, points out, Mr Clinton wants to get re-elected in 1996, and the strong showing of Mr Ross Perot during last autumn's campaign shows the electorate is deeply concerned about the deficit.

He adds: "The big surprise over the next few months could be that Clinton's multi-year economic proposals will have much less short-term fiscal stimulus and much more deficit reduction than widely expected."

Certainly, the latest statistics suggest that the economy is now recovering sufficiently robustly not to need a sharp stimulus. Last Friday brought word of a better-than-expected jump in November retail sales and a big rise in consumer confidence.

The Federal Reserve's latest Beige Book on economic conditions points to a modest but uneven improvement and the central bank seems certain to keep monetary policy on hold when its Open Markets Committee meets on December 22.

At the same time, inflationary pressures remain very subdued. The consumer price index for November, released on Friday, saw a modest two-tenths of a per cent rise, just what Wall Street had been expecting.

The net effect of these various forces last week was to leave long bond prices modestly higher on the week, with the yield on the benchmark 30-year issue dropping from 7.48 per cent to 7.43 per cent. A rally early in the week on news of the political appointments was partly offset in the latter half by the good economic figures.

The great unknown remains the economic package Mr Clinton will unveil in the early weeks of his presidency. The market was unsettled by his recent remarks – albeit made well before last week's cabinet appointments – suggesting that the recovery may not be all that robust.

But each fresh batch of statistics suggests otherwise, and could open up for Mr Clinton a golden opportunity for deficit reduction. Long bond prices might then rally, producing a substantially flatter yield curve as short term rates trended upwards in response to recovery.

Martin Dickson

First for Merrill Lynch

MERRILL Lynch, the US securities group, plans to open a representative office in Shanghai, AP-DJ reports from Beijing.

The official Xinhua News Agency said Merrill Lynch would be the first foreign securities company to operate in China.

One of China's two, tiny stock markets is located in Shanghai.

The market offers a small selection of "B shares," which are sold for hard currency to foreign investors.

The "A shares" bought by Chinese investors cannot be sold to foreigners.

The news agency did not say whether Merrill Lynch would be allowed to operate on equal terms with Chinese securities companies in the domestic market, or whether it would be limited to dealing with foreign investors.

JAPANESE BONDS

Tankan prompts hope of rate cut

HOPES of an imminent cut in the official discount rate re-emerged on Friday following the release of the latest tankan, the Bank of Japan's quarterly survey of business confidence.

The report made it clear that the Japanese economy is facing one of the most severe post-war downturns. It could well prompt a further fall in short term money market rates and a steepening of the yield curve.

The yield on the No 145 10-year government bond closed at 4.595 per cent on Friday. With most bond market participants on the sidelines ahead of the year-end, the yield has ranged between 4.58 per cent and 4.63 per cent over the past month.

The central bank's report indicated that business confidence among 6,874 businesses fell to a 16-year low, with confidence among manufacturers falling to minus 44, its lowest level since 1976, and non-manufacturers minus 27, down from minus 13 in August.

The sluggish economy was confirmed in third-quarter GNP figures announced earlier this month. Japan's economy fell an annualised 1.6 per cent from the previous quarter. Traders point out that while the next cut for the official discount rate is already discounted in bond prices, the move could prompt a rally in response to hopes of a further credit easing.

Although the Bank of Japan denies the possibility of an imminent discount rate cut, some investors remain hopeful the central bank may repeat last year's move, when it eased credit on December 30.

A further fall in short term rates would be favourable for the long bond market, and for corporate issuers, who need to raise funds as equity-linked bonds, launched at the peak of the market, come to maturity.

Mr Marshall Gittler, fixed income analyst at Merrill Lynch in Tokyo, says institutions are facing a problem in finding low risk high yielding instruments to place funds, causing a lack of investors willing to sell.

On the middle to longer term, however, a deluge of corporate issues could pose problems over the next year, where some Y10,000bn of equity-linked issues are expected to mature. Corporate registrations for issuances within the next two years with the Ministry of Finance have risen to around Y7,000.

Most companies seem to be waiting for interest rates to bottom, and investors may face a surge in new issues during the first and second quarters of next year.

According to Merrill Lynch, Japan's private sector debt is currently equal to over 200 per cent of GDP and the net return on capital is around the lowest level for ten years.

Under such circumstances, the Bank of Japan is expected to keep rates low to maintain low-cost short term financing.

Emiko Terazono

FT/ISMA INTERNATIONAL BOND SERVICE

[illegible]				
REED PUBLISHING 9 5/8 97	150	109¾	+⅛	7.01
SAINSBURY 9 1/8 96	150	108¼	+⅛	6.63
SAS 10 99	200	107⅞	+⅛	8.31
WORLD BANK 0 15	2000	22	+⅛	6.90
WORLD BANK 5 3/4 96	300	96¼	-⅛	6.93
WORLD BANK 8 3/4 00	1250	109⅝	-⅛	7.06
TAKASHIMAYA	[illegible]			92.19
TOYO SASH	[illegible]			
YAMANOUCHI PHARM	01/03/94			18.01

STRAIGHT BONDS: Yield to redemption of the bid-price. Amount issued is expressed in millions of currency units.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C.cpn = current coupon.
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = [illegible] price. Closing prices on December 11

INTERNATIONAL CAPITAL MARKETS

UK BONDS

Debenture holders face controversial default

BY THE end of this week the UK debenture market could be faced with a rare and controversial default, the first such event to spring from the weakening UK property market.

The case has already prompted many investors to take a closer look at the state of the assets backing their debentures, as well as the wording of the covenants covering their lending. And it has brought scrutiny of how well trustees protect their bond holders' interests.

A £135m issue from London & Provincial Shop, a subsidiary of Randsworth Acquisition, which is in receivership, seems likely to be called into default on Friday, following notice of breach of covenant issued ten days ago by Law Debenture Corporation, the trustee to the issue.

Law Debenture's reason for issuing its notice – the sale by London & Provincial in 1990 of a property over which the debenture holders had a charge – is disputed by the company, which claims it acted in accordance with the trust deed. These rival views could yet end up in court.

London & Provincial's problems go far beyond this, though. Bondholders were told earlier this month that a valuation in June of the properties backing the bonds had shown total assets to be worth only 1.18 times the £135m lent, compared with a covenanted agreement that the proportion would not fall below 1.5 times. Since June, the company estimates, its assets have fallen further, leaving it with cover of less than 1.1 times.

The company also faces an interest payment to its debenture holders on January 6. Since its recent announcement of losses of £4.37m in the year to June, that payment has been in doubt.

Defaults in the debenture market are few and far between – and even when they happen, investors are normally repaid in full (as happened when Rolls-Royce collapsed 20 years ago). In the past 30 years, only the Prince of Wales Dry Dock in Swansea and Mitchell Construction are thought to have left their debenture holders out of pocket.

That helps to account for the tight spread on which debentures trade: MEPC's secured bonds, for instance, trade at a spread of about 110 basis points over gilts, compared with the 220 basis point spread of MEPC's unsecured debt – a difference of 110 basis points. For the strongest credits in the property sector, like Land Securities, the difference is around 55 basis points.

The rarity of the situation has prompted debenture investors – mainly insurance companies – to scrutinise their portfolios with renewed interest. So far only Dares Estates, a property investment and development group which is seeking a financial restructuring, has been put on the official sick list.

The London & Provincial case has aroused investors' passions for other reasons too. Despite the lack of adequate asset cover, no formal valuation of the properties has been done under the terms of the debenture's trust deed (the June valuation came from the company's own advisers). Only after a formal valuation, and a further six-month period to allow the company to top up the asset cover, would the bondholders be able to call a breach of covenant.

Some investors feel the trustee to the issue, Law Debenture, has failed to protect their interests. Six months ago, a substantial proportion of the holders asked the trustee to order a formal valuation, only to have their request rejected.

Mr David Norris of Law Debenture still stands by that decision: an attempt by a receiver to sell London & Provincial in full could have been harmed by such a move, if it revealed a low valuation, he says. Also, since the debentures do not mature until well into the next century, it seemed logical to react to a short-term fall in the property market by starting a series of actions which could lead to a technical default. Investors he spoke to afterwards agreed with the reasoning, says Mr Norris.

He adds that London & Provincial highlights one of the hazards of being a trustee: you are condemned if you act, and condemned if you do not. Others, though, claim the case raises more important questions. How well do trustees exercise their discretion – and are there other situations where they have effectively turned a blind eye to potential breaches of covenants, potentially to the detriment of investors?

THERE is a view abroad in the City that another corner of the domestic sterling bond markets is about to spring into life. Judging by a significant shift in their financing costs, UK local authorities should soon return to the capital markets after a decade-long absence.

The overall picture is clear from figures prepared by Baring Sterling Bonds. In 1981, local authorities had more than £2bn in bonds and loan stocks outstanding. By last year, that had fallen to under £300m. Authorities could borrow more cheaply from the Public Works Loan Board, which itself is funded through gilt issuance, so why turn to the markets?

That picture has changed markedly. PWLB lending counts towards the UK's Public Sector Borrowing Requirement, so rates have been pushed up to dissuade authorities from tapping the public purse. That effectively forces them into a form of public sector off-balance sheet finance – borrowings direct from banks or the bond markets.

This phenomenon isn't restricted to the UK, but is becoming familiar across Europe as national fiscal positions deteriorate.

Why, then, hasn't there already been a stampede of authorities to the sterling bond market? In part, perhaps, because the markets need time to reacquaint themselves with the authorities. In the 10 years since they were last big borrowers, the Hammersmith & Fulham swaps case and a substantial shift in the relationship between central and local government have occurred.

Also, authorities tend to move in unison. It seems unlikely that a single authority would move alone, without first having sounded out others: and some authorities may be concerned that, for political reasons, their names are not strong enough to demand an instant following. Logic suggests, though, that the authorities will appear before long.

Richard Waters

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
NGK Spark Plug Co.(a,b)♦	200	1996	4	2.75	100	Yamaichi/ Nomura	-
Lion Corp.(a)♦	100	1996	4	2.625	100	Daiwa Europe	-
Nippon Comsys Corp.(a)♦	60	1996	4	2.625	100	Nikko Europe	-
Honen Corp.(a)♦	50	1996	4	2.625	100	Nomura Int.	-
DESC(c)	10	1997	5	11	100.55	Goldman Sachs Int.	10.855
CCCM1(g,h,j)‡	1bn	1995	2.08	(j)	99.92417	Citibank	-
CCCM1(g,i,l)‡	78.2	1995	2.25	5.65	99.84375	JP Morgan Securities	5.720
CCCM2(g,h,k)‡	1bn	1998	5.08	(k)	99.90706	Salomon Brothers Int.	-
CCCM2(g,i,l)‡	102	1998	5.25	7.2	99.875	JP Morgan Securities	7.225
Ciba-Geigy Corp.	200	1997	5	6.5	101.415	CSFB	6.163
NordDeutsche Lbk(m)‡	75	2002	10	(m)	99.875	Merrill Lynch Int.	-
Banco Itamarati(l)	20	1995	2.5	11.5	99.95	Lehman Brothers Int.	11.528
Abbey Nat.Treas.Serv.(n)‡	100	1993	1	(n)	100	Lehman Brothers Int.	-
Finnish Export Credit(q)‡	50	1996	4	(q)	100.1	Salomon Brothers Int.	-
SwissRe Fin.(US)Inc.(r)♦	150	1999	7	3.75	100	Goldman Sachs Int.	-
Sumitomo Metal Mining(v)♦	400	1998	5	3.75	100	Daiwa Europe	-
YEN							
Tokyu Land Corp.	20bn	1998	5.25	5.3	100	Yamaichi Int.(Europe)	5.294
Glory	10bn	2000	7.25	5.6	101	Yamaichi Int.(Europe)	5.425
Formula(Grand Cay.)(s)‡★★	4.3bn	1998	4	(s)	100.1	Fuji Int.Finance	-
European Inv.Bank(w)	25bn	1997	4.75	4.5	99.95	IBJ Int.	4.508
D-MARKS							
Shinseido Co.(o)‡★★	30	1996	4	(o)	100	Sakura Bank(Deutsch.)	-
STERLING							
BCE Inc.	125	1998	5.05	8.375	99.49	UBS P&D Securities	8.499
Truck Funding(t)‡	180	1997	3.75	(t)	100	UBS P&D Securities	-
GUILDERS							
IKB Deutsche Ind'bk.(p)	75	2003	10	8	100.9	Rabobank Nederland	7.867
ABN Amro Bank	250	2008	15	7.5	99.8	ABN Amro Bank	7.523
SWISS FRANCS							
Ohki Corp.(a)♦★★	60	1996	4	2.5	100	New Japan(Schweiz)	-
NTT	300	2000	7	6	102.5	UBS	5.559
European Inv.Bank(f)	150	1998	5	6	102	Swiss Volksbank	5.531
Province of Ontario(u)	100	2003	10	6.25	102	Crédit Suisse	5.979
LUXEMBOURG FRANCS							
Soc.Euro.de Banque★★	350	1999	7	8.25	102.2	Banque Int. à Lux.	7.830
Grand-Duche de Lux.(d)	2.3bn	2002	10	zero	100	BCEE	6.629
Glaverlux(e)§	1.8bn	1999	7	6.5	100	Banque UCL	-
Confederation Life Assur.	1bn	2000	7.16	8.375	102.3	Banque UCL	7.934
Cregem Finance	1bn	2002	9	8.125	102	Cregem Int.Bank	7.807
Banque Générale du Lux.	1bn	2003	10.16	8	102	Banque Gén.du Lux.	7.703
First Austrian Bank	1bn	2003	10	8.125	101.875	Banque Gén.du Lux.	7.847
Kredietcorp Luxembourg★★	350	1997	5	7.8	101.5	Kredietbank Lux.	7.430

Final terms and non-callable unless stated. ★★Private placement. §Convertible. ♦With equity warrants. ‡Floating rate note. a) Exercise premium fixed at approximately 2½%. b) European $100m tranche led by Yamaichi Int.(Europe), Asian $100m tranche by Nomura Singapore. Tranches are fully fungible. c) Issue launched on 3/12/92 has been increased to $125m. Coupon payable semi-annually. d) Launched on 18/11/92. Putable annually at a yield of approximately 6.63%; final put is 190% in Dec 2002. e) 25 non-detachable subscription rights/ LFr90,000 certificate; each right entitles bondholder to subscribe for a Glaverbel share at BFr3800 (14.3% premium) by remittance of the bond. Callable under specified terms in 1995, 96, 97 or 98; if called bondholders can subscribe for shares, redeem for cash or opt for a straight bond. f) Issue launched on 12/11/92 has been increased to SFr500m. g) Borrower's name: Choice Credit Card Mastertrust. Secured by credit card receivables. h) "A" senior tranche. i) "B" junior tranche. j) Coupon pays 15bp above 3-month Libor. k) Coupon pays 30bp above 3-month Libor. l) Coupon payable semi-annually. m) Coupon pays 12.5bp below 6-month Libor. Minimum coupon 5%, maximum 10%. n) Coupon pays 12.5bp below 3-month Libor. o) Coupon pays 40bp above 6-month Libor. p) Additional tranche to Fl 200m deal launched on 23/11/92. Fully fungible. q) Issue launched on 27/11/92 has been increased to $250m. Coupon pays 50bp above 3-month Libor. Callable from Dec 94 at par. r) 196 detachable warrants/$10,000 bond; each warrant entitles holder to one MGIC Investment Corp share at $48⅛ (2.9% premium) and warrants are callable from years 3-5. s) Series XIII. Coupon pays 60bp above 6-month Libor. t) Coupon pays 50bp above 3-month Libor. Secured by Leyland DAF lease receivables. u) Issue launched on 3/12/92 has been increased to SFr400m. v) Final terms fixed on 18/12/92. w) Fungible with Y50bn launched on 18/9/92. Plus 90 days accrued interest. Note: Yields calculated on ISMA basis

RISK AND REWARD

Place your bets on the Bundesbank's next move

WILL European interest rates fall to drop as fast next year as forward prices in the money markets predict? Or will they fall faster? Whichever the outcome, a rash of structured products is currently on offer for investors who want to gear up their bets on what the Bundesbank does next.

Betting on the speed of European interest rate cuts has been a popular game from New York to Tokyo for more than a year now. Following the September mayhem in currency markets, though, activity has picked up in recent weeks.

Earlier this year, US investors were driven by a desire to earn high European-style interest rates at a time when US rates were low. The "diff swap", which enabled them to swap a US income stream for a European-style one, was one answer. Now, though, they are more interested in how to benefit from the falling differential between interest rates in the two continents. Structured notes issued by banks are one answer – particularly for US or Japanese investors who want to avoid the risks of holding European currencies. Returns to the investor are tied to the differential between US and European interest rates over the next year.

For instance, the spread between US and German six-month Libor is nearly 500 basis points at present, while the markets expect the gap to have narrowed to a little over 100 basis points by the end of 1993. Goldman Sachs, one of the US banks in London to sell structured notes, predicts that the spread a year from now will stand at 360 basis points.

It therefore recommends a note that pays out a premium if the gap has narrowed to less than, say, 250 basis points. If the markets are right, of course, and the gap narrows faster than this, anyone buying such a note could quickly see their investment being eaten into.

Yield curve bets like these could be constructed by investors from scratch, avoiding the investment banks' own profit margin, though for all but the biggest that may prove difficult or expensive.

An alternative bet which has been popular among Japanese investors this year is the reverse floater, says Mr Nick Burge of Nomura International. Normally issued in small tranches under medium-term note programmes, these instruments pay a higher yield as interest rates fall. Reverse floaters were a popular bet on falling Japanese interest rates at the start of this year, he says, and have now taken hold in European currencies as well.

RENEWED tensions in Europe's exchange rate mechanism in the lead up to the Edinburgh summit caused some parts of the currency options market to all but seize up at the end of last week.

Gridlocks like this have become familiar in recent months, ebbing and flowing with the tide of speculation in the spot foreign exchange markets. With markets becoming seasonally less liquid anyway as the end of the year approaches, it seems unlikely that things are likely to get better soon.

"Liquidity in [options on] the smaller ERM currencies has been very thin – though it has held up quite well in the £/D-Mark," said Mr Keith Darlington of ICI's treasury department. Mr Bob Jolly, an associate director of County NatWest Investment Management, agreed: "FFr/D-Mark is not being quoted at all, or is being quoted on massive spreads."

Volatility for one week FFr/D-Mark options was being quoted on Friday at a spread of 5-15 per cent: a reflection of the fact that few banks wanted to write options, since to do so would leave them exposed to any sharp swing in the exchange rate. For ERM currencies expected to move within narrow fluctuation bands, these volatility levels showed just how high the premium on the franc had risen by the end of last week.

The French currency is not alone. The implied volatility levels used to price options on most European currencies have been edging higher again in recent weeks, having slipped back after the traumas of September. This is not just within the ERM: the three-month volatility of both sterling and the D-Mark against the $ was around 15-16 per cent at the end of last week.

Richard Waters

EUROPEAN FINANCE AND INVESTMENT

SWITZERLAND
DECEMBER 17 1992

Finanzplatz Schweiz is in the midst of momentous change. Will bring more challenges. The FT Swiss correspondent, Ian Rodger, will analyse the repercussions for the financial system in this post-referendum report.

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FT SURVEYS

WORLD STOCK MARKETS

AUSTRIA · BELGIUM/LUXEMBOURG · DENMARK · FINLAND · FRANCE · GERMANY · NETHERLANDS · NORWAY · SPAIN · ITALY · SWEDEN · SWITZERLAND · SOUTH AFRICA · JAPAN · AUSTRALIA · HONG KONG · MALAYSIA · SINGAPORE

CANADA

TORONTO

4 pm close December 11

Quotations in cents unless marked $

Sales	Stock	High	Low	Close	Chng
200	Cantor x	$25¼	25½	25¼	+1⅛
1100	CdnForest x	$20⅞	20½	20½	+½
11000	Cara Op	450	450	450	−5
9000	Cascades	$6⅜	6¼	6¼	
5500	Celanese x	$39½	39¼	39¼	
3600	Cntrl Cap	1	d1	1	
5300	Cinepx Odn	250	240	245	
1400	Cntrl Fd A	465	455	465	+10
42900	Cominco x	$18⅛	17⅞	18⅛	+¼
138000	Coputelog	46	46	46	
1000	Ivaco A	255	255	245	
6600	Jannock x	$12⅞	12¾	12¾	−⅛
3400	KerrAddis	$16½	16½	16½	
57000	Labatt	$26½	26¼	26½	+¼
225000	Lac Minls	$7	6¾	7	+¼
2400	Lafarge	$17	17	17	
4300	Laidlaw A	$10⅞	10⅞	10⅞	
74800	Laidlaw B	$10⅞	10¾	10¾	−¼
700	Laurent Bk	$18⅞	18¾	18¾	+⅛
101200	Repap Ent	190	d185	185	
21000	Rio Algom	$16⅝	16½	16⅝	+⅛
419200	RogersComB	$14⅞	14⅛	14⅞	+¼
2800	Rothmans x	$100½	100	100½	−½
234600	RoyalBkCan	$23⅜	22⅞	22⅞	−⅜
25900	Ryl Oak Mn	165	175	165	+10
158700	RylTrustco	330	315	315	−15
5300	StLawrCm A	$7⅛	7	7	
257000	SceptreRs	$5⅛	4⅜	4 95	

MONTREAL

4 pm close December 11

Sales	Stock	High	Low	Close	Chng
54600	NatBk Can	$8	7⅞	7⅞	
1300	Quebecor A	$16½	16½	16½	−⅛
4800	Teleglobe x	$13¾	13¾	13¾	+⅛
800	Univa x	$7	7	7	
6000	Videotron	$16⅞	16¾	16⅞	+⅛

Total Sales 9,293,300 shares

NEW YORK

DOW JONES	Dec 11	Dec 10	Dec 9	Dec 8	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3304.08	3312.19	3323.81	3322.18	3413.21 (1/6)	3136.58 (9/10)	3413.21 (1/6/92)	41.22 (2/7/32)
Home Bonds	103.14	103.01	103.00	102.94	103.20 (18/9)	98.41 (20/3)	103.20 (18/9/92)	54.99 (1/10/81)
Transport	1411.54	1414.76	1413.35	1428.86	1467.68 (20/2)	1204.40 (26/8)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	219 33	218 64	218.20	219.14	225.59 (3/1)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

DJ Indl. Day's High 3324.89 (3335.69) Low 3280.85 (3285.17) (Theoretical)♦
Day's High 3312.19 (3323.81) Low 3301.11 (3300.57) (Actual)

STANDARD AND POOR'S

	Dec 11	Dec 10	Dec 9	Dec 8	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	433.73	434.64	435.65	436.99	436.99 (8/12)	394.50 (8/4)	436.99 (8/12/92)	4.40 (1/6/32)
Industrials	508.18	509 51	511.25	512.85	512 85 (8/12)	470.91 (8/4)	512.85 (8/12/92)	3.62 (21/6/32)
Financial	39.53	39.67	39.74	39.83	39.88 (8/12)	32.40 (8/4)	39 88 (8/12/92)	8.64 (1/10/74)
NYSE Composite	238.63	238.97	239.44	240.24	240.24 (8/12)	217.92 (8/4)	240.24 (8/12/92)	4.46 (25/4/42)
Amex Mkt. Value	393.38	392.59	392.98	394.65	418.99 (12/2)	364.85 (9/10)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	655 79	658.93	663.92	667.12	667.12 (8/12)	547.84 (26/6)	667.12 (8/12/92)	54.87 (31/10/72)

	Dec 4	Nov 27	Nov 20	year ago (approx.)
Dow Industrial Div. Yield	3.13	3.14	3.19	3.17

	Dec 9	Dec 2	Nov 25	year ago (approx.)
S & P Industrial div. yield	2.58	2.61	2.62	2.80
S & P Indl. P/E ratio	27.10	26.71	26.63	22.79

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Home Shop	3,456,100	8¼	+ 1¼
Maybelline	2,705,100	26¾	---
IBM	1,946,800	62⅜	+ ⅝
Nat Semi	1,882,600	10¼	—
Pogo Prod	1,882,400	10	- ¼
Philadel Elec	1,881,100	25¾	- ⅛
Incera Grp	1,841,400	34½	+ ⅞
RJR Nabisco	1,809,500	9	- 1¼
Philip Morris	1,642,700	79	- 1
G Tech Hldg	1,635,300	37	- 1⅜

TRADING ACTIVITY

† Volume (Millions)	Dec11	Dec 10	Dec 9
New York SE	164,450	240.570	229.980
Amex	13.811	16.575	17.302
NASDAQ	(u)	241.352	230.591
NYSE			
Issues Traded	2,374	2,411	2,423
Rises	839	777	725
Falls	906	1,047	1,111
Unchanged	629	587	587
New Highs	37	53	84
New Lows	14	21	24

CANADA

TORONTO	Dec 11	Dec 10	Dec 9	Dec 8	1992 HIGH	1992 LOW
Metals & Minerals	2789.81	2773.87	2797.21	2803.18	3238.87 (16/1)	2529.91 (17/11)
Composite	3267.50	3270.24	3285.49	3290.90	3666.00 (16/1)	3195.40 (14/10)
MONTREAL Portfolio	1726.33	1729.87	1736.33	1740.05	1937.59 (16/1)	1663.16 (14/10)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♦ The DJ Indl. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's).

	Dec 11	Dec 10	Dec 9	Dec 8	1992 HIGH	1992 LOW
AUSTRALIA						
All Ordinaries (1/1/80)	1500 7	1501.3	1482.1	1468 9	1684.50 (22/5)	1357 20 (16/11)
All Mining (1/1/80)	594.6	589 8	577.9	574.8	726 80 (3/7)	545 40 (16/11)
AUSTRIA						
Credit Aktien (30/12/84)	306.05	309.95	311.76	(c)	577.76 (9/12)	291.41 (13/8)
Traded Index (2/1/91)	742.68	751.97	756.26	(c)	1099 43 (24/2)	682 96 (13/8)
BELGIUM						
BEL20 (1/1/91)	1116.56	1124.58	1129 97	1130.02	1235.40 (2/6)	1046 07 (2/9)
DENMARK						
Copenhagen SE (3/1/83)	270.10	265 49	264 68	264 47	365.29 (15/1)	250.42 (28/10)
FINLAND						
HEX General (28/12/90)	856.6	867.9	880.9	881.7	935.90 (24/2)	541.00 (7/9)
FRANCE						
CAC General (31/12/81)	464.69	472.56	467.43	470 88	555 93 (12/5)	441 70 (7/10)
CAC 40 (31/12/87)	1758.70	1769.48	1791.16	1765.88	2077.49 (11/5)	1611.04 (5/10)
GERMANY						
FAZ Aktien (31/12/58)	581.27	591.42	594.65	596.40	725.26 (26/5)	565.61 (12/10)
Commerzbank (1/12/53)	1640.8	1672.5	1681.9	1686.2	2043.80 (25/5)	1594.60 (12/10)
DAX (30/12/87)	1476.01	1494.48	1508.59	1508.24	1811.57 (25/5)	1420.30 (6/10)
HONG KONG						
Hang Seng Bank (31/7/64)	5253.18	5273.79	5339.25	5202.36	6447.11 (12/11)	4301.78 (2/1)
IRELAND						
ISEQ Overall (4/1/88)	1171.00	1159.40	1154.11	1168.33	1469.57 (17/1)	1094 88 (19/10)
ITALY						
Banca Com. Ital. (1972)	422.81	425.48	432.0	(c)	551.59 (6/2)	354 93 (16/9)
MIB General (2/1/92)	834.0	839.0	852.0	(c)	1086.00 (5/2)	696.00 (16/9)
JAPAN						
Nikkei (16/5/49)	17441.02	17501.38	17406.22	17281.65	23801.18 (6/1)	14309 41 (18/8)
Tokyo SE (Topix) (4/1/68)	1325.15	1328.83	1312.92	1304 86	1763 43 (6/1)	1102.50 (18/8)
2nd Section (4/1/68)	1731.1	1720 68	1699 92	1682.48	2459.85 (6/1)	1502.77 (19/8)
MALAYSIA						
KLSE Composite (4/4/86)	635.26	633.94	633.52	635 93	660.35 (5/11)	546 63 (14/1)
NETHERLANDS						
CBS Tot.Rtn.Gen.(End 1983)	292.6	292.8	293.9	292.4	314.90 (9/6)	274.00 (8/1)
CBS All Shr (End 1983)	196.9	197.1	197.8	196.8	215.50 (26/5)	189.70 (25/8)
NORWAY						
Oslo SE (Ind) (2/1/83)	685.77	711.38	657.48	653 94	772.74 (18/5)	532.43 (25/8)
PHILIPPINES						
Manila Comp (2/1/85)	1232.36	1248.84	1265.96	1278.59	1580.95 (11/6)	1083 01 (17/3)
SINGAPORE						
SES All-Singapore (2/4/75)	379.3	378.14	378.74	377.58	416.99 (21/1)	351.41 (21/10)
SOUTH AFRICA						
JSE Gold (28/9/78)	817.0ψ	816.0	827.0	858.0	1327.00 (21/1)	746.00 (10/11)
JSE Industrial (28/9/78)	4316.0ψ	4372.0	4406.0	4357.0	4689 00 (4/6)	3936 00 (19/10)
SOUTH KOREA**						
Korea Comp Ex. (4/1/80)	645.70	642.03	620 74	625 61	691 48 (8/2)	459.07 (21/8)
SPAIN						
Madrid SE (30/12/85)	212.33	212.21	211.37	(c)	266.51 (28/2)	179.48 (5/10)
SWEDEN						
Affarsvariden Gen. (1/2/37)	883.1	901.1	898.2	886.4	1014.50 (11/5)	639.00 (5/10)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	883.8	881.5	882.8	874.1	883.80 (11/12)	748.50 (8/1)
SBC General (1/4/87)	658.1	656.1	654 6	649.4	682.30 (11/5)	596.40 (26/8)
TAIWAN**						
Weighted Price (30/6/66)	3734.30	3746.75	3776.55	3761.01	5391.63 (30/1)	3351.63 (26/9)
THAILAND						
Bangkok SET (30/4/75)	852.61	(c)	848.54	847.90	963.03 (5/11)	667 84 (19/5)
WORLD						
M.S. Capital Intl.(1/1/70) ($)	496.1*	498.1	497.9	498.6	542.10 (7/1)	467 50 (8/4)
Euro Top-100 (26/6/90)	844.53	849.83	854.44	855.53	976.55 (25/5)	772.52 (5/10)

**Saturday December 5: Taiwan Weighted Price: 3,727.95, Korea Comp Ex. 623.25.
ψ Subject to official recalculation. *Calculated at 15.00 GMT

Base values of all indices are 100 except: Austria Traded, BEL20, HEX Gen., MIB Gen., CAC40, Euro Top-100, ISEQ Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary and Mining – 500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks

Friday, December 12, 1992

	Stocks Traded	Closing Prices	Change on day
Mitsui Min & Sml	8.5m	495	-13
NPN Steel Corp	5.4m	291	-4
Kaisei Electric	5.3m	827	+22
Kawasaki Steel	5.1m	284	+2
Sumitomo Mtl	5.0m	281	+6
Nichirei	3.9m	700	+6
Nippon Jutaki	3.8m	318	+6
NKK	3.8m	264	+8
Toshiba Corp	3.7m	633	
The Asahi Bank	8.7m	630	+11

FT MANAGED FUNDS SERVICE

• Current Unit Trust prices are avai[illegible] 925 2128.

AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F
51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
AIB Grofund American	5	151.5	153.2xd	161.3	0.00	40591
AIB Grofund Equity	5	195.0	197.8	209.3	1.96	40598
AIB Grofund Euro	5	141.4	143.5	151.0	0.93	40594
AIB Grofund Ext Balanced	3	97.87	99.50	102.58	0.00	–
AIB Grofund Gilt	3	74.43	74.46	76.76	5.30	40595
AIB Grofund Japan	5	123.9	125.3xd	131.9	0.00	40596

AXA Equity & Law Unit Tst Mngrs (1200)H
Equity & Law Hse, Corporation St, Coventry 0203 553231

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
General Inc	5	387.2	389.3	414.2	3.07	40481
General Acc	5	421.7	423.9	451.0	3.07	41570
UK Growth Acc	6	283.0	287.4	305.8	3.47	40392
UK Growth Inc	6	202.9	206.0	219.2	3.47	40393
Higher Inc Acc	6	484.1	492.3	523.8	4.92	40394
Higher Inc Inc	6	298.6	303.7	323.1	4.92	40395
Gilts/Fxd Int Acc	5½	166.4	166.4	175.7	6.84	40396
Gilts/Fxd Int Inc	5½	89.67	89.67	94.71	6.84	40397
Nth America	6	249.1	254.1	270.4	0.00	40398
Far East	6	227.9	227.5	242.1	0.25	40399
Europe	6	195.2	195.2	207.7	0.35	40400
Brit Excell	6	58.40	58.40xd	62.13	3.54	40402
Brit Fedsmth Acc	6	74.15	74.15	78.89	5.66	40403
Brit Fedsmth Inc	6	58.20	58.20	61.92	5.66	40404
Global Opps	6	61.26	61.06xd	65.81	0.00	41600

Abbey Unit Tst Mngrs (1000)H

Britannia Life Unit Managers Ltd (1200)F
190 West George St, Glasgow G2 2PA 041-332 3132

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Balanced Growth	6	85.41	84.53	90.41	2.40	40427
Do (Accum)	6	91.07	92.30	98.71	2.40	40428
Smaller Cos	6	61.47	61.47xd	65.74	2.61	40433
Do (Accum)	6	66.47	66.47	71.09	2.61	40434
Higher Yield	6	33.32	33.70	36.05	5.57	40429
Do (Accum)	6	45.04	45.56	48.73	5.57	40430
American Gth Inc	6	49.08	49.34	52.77	0.16	40423
Do (Accum)	6	50.01	50.28	53.77	0.16	40424
European Growth	6	86.88	87.22	93.28	2.09	40339
Do (Accum)	6	87.68	88.02	94.15	2.09	–
Global Bond Inc	6	26.99	27.19xd	28.08	5.11	40495
Do (Accum)	6	33.16	33.41	35.45	5.11	40496
Managed P'folio Inc	6	29.56	29.64	31.70	0.00	40147
(Do Accum)	6	29.65	29.72	31.78	0.00	40142
Pacific Growth Accum	6	76.64	77.46	82.82	1.48	40323
Intl Spec Opps Accum	6	70.43	71.16	76.11	1.83	40320

Brown Shipley & Co Ltd (1000)F
9-17 Perrymount Rd Haywards Hth 0444 412262

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Mngd P'folio Inc	6	78.98	78.98	84.11	2.47	40386
Mngd P'folio Acc	6	147.9	147.9	157.5	–	40387
UK General	6	128.3	128.3xd	136.6	3.71	40188
Conv & General	6	16.34	16.34xd	17.40	8.87	40190
European Inc	6	20.22	20.22	21.82	0.52	40191
European Acc	6	20.87	20.87	22.53	–	40192
Financial	6	93.59	93.59	99.67	4.46	40194
Foundation	6	60.43	62.21	66.25	4.24	40534
German	6	36.11	36.11xd	39.73	0.10	40195
Growth Inc (5-1)	5	26.01	26.08xd	27.77	3.38	41589
Growth Acc (5-1)	5	30.29	30.36	32.33	–	40220
High Income	6	62.71	62.71	67.73	6.94	40196
Income	6	103.3	104.6	112.9	5.14	40197
Intl Income	6	81.15	81.15	86.42	5.98	40189
Intl Growth ♣	6	29.86	29.86xd	31.80	0.25	40198
Monthly Income	6	57.01	59.33	62.95	6.35	40511
North American	6	96.68	96.68	103.0	0.21	40199
Orient ♣	6	90.92	90.92	97.36	–	40200
Recovery	6	26.87	26.87xd	29.02	4.07	40201

Gartmore Fund Managers (1200)F
Gartmore House, 16-18 Monument Street
London EC3R 8AJ 071-782 2000
Dealings only 0277-264421
Investor Services. Freephone 0800-289 336

INVESCO MIM UT Mngrs Ltd –Contd.

MW Investment Managers Ltd (0659)F
46 Coort St, Haddington, E. Lothian 062 082 5867

Maiden Unit Trust Managers Ltd (1400)F
c/o Baillie Gifford 1 Rutland Ct EH3 8EY 031 222 4242

Manulife Management Ltd (1200)F
St George's Way, Stevenage Dealings 0438-747414

N&P Unit Trust Management Ltd (1200)F
35 Fountain St, Manchester M2 2AF 061 237 5322

National Provident Inv Mngrs Ltd (1400)H
48 Gracechurch St, EC3P 3HH 071-623 4200

Rothschild Fund Management (1000)F
St Swithin's Lane, London EC4 Dealers 071-280 5000

MGM Unit Managers Ltd (1000)F
MGM House, Heene Rd, Worthing
Dealing: 0277 261010 Enq: 0903 204631

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
High Income	5	231.0	234.5	249.4	5.66	40887
(Accum Units)	5	393.5	399.5	425.0	5.66	46418
UK Growth	5	298.3	300.9	320.1	3.22	40888
(Accum Units)	5	371.4	374.7	398.6	3.22	46919
Int Equity Gth ♣	5	53.99	54.12xd	57.57	1.15	40889
Intl Bond	5	62.57	62.57xd	65.76	6.16	40890
Special Sits Gwth	5	15.23	15.63	16.62	2.92	40891
North American Gwth	5	86.00	86.37	91.88	0.92	40892
European Growth ♣	6	54.19	54.51	57.98	1.06	40104

Guide to pricing of Authorised Unit Trusts
Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The maximum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

FT MANAGED FUNDS SERVICE

• Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

Sharp (Albert E.) & Co (1000)F
Admin: 5 Rayleigh Rd Hutton, Brentwood Essex
Enquiries: 0277 227300 Dealing: 0277 261010

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Intl Bond & Com	5	117.00	117.20	123.40	5.61	47424
Pooled Pension	7	140.7	145.3	150.4	–	47257
Smaller Cos.	5	51.41	53.27	56.07	2.68	46203
UK General	5	110.30	112.00	117.90	3.56	–

Sheppards Unit Trust Mngmt Ltd (1200)F
1 White Hart Yard, London Bridge SE1 071 407 5966

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Income	5	357.56	357.56	379.01	5.44	40913
Global Inc	5	51.44	51.44	54.53	4.46	40916
Brit Leaders	5	301.58	301.58	319.67	3.19	40914
Intl Leaders	5	166.08	166.08	176.04	1.86	40915
F Am Nat Gilt Acc	3¼	48.23	49.44	51.37	3.31	40909
F Am Nat Gilt Inc	3¼	48.23	49.44	51.37	3.31	–

Singer & Friedlander UT Mgmt Ltd (1000)F
PO Box 224, Beckenham, BR3 4TF 081-663 3003

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
European Trust	6	46.60	46.68	49.66	1.68	42492
Far Eastern Tst	6	50.37	51.01	54.26	0.91	–
Smaller Cos	5	114.8	119.4	127.0	2.74	47431

Smith & Williamson Unit Tst Mgrs (1600)F
1 Riding House St, London W1A 3AS 071-637 5377

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
S & W American	5	263.9	263.6xd	279.9	0.99	41390
S & W Capital	5	105.9	105.9	113.4	1.95	40181
S & W Cash	0	101.49	101.49	101.49	6.79	47903
S & W European	5	103.8	103.9	109.9	1.23	40253
S & W Far Eastern	5	105.5	106.5	112.7	0.14	46974
S & W Growth	5	113.2	114.5xd	121.2	2.50	41391
S & W Income	5	98.87	100.2	106.0	5.62	41392
S & W Magnum	5	111.7	111.7	119.6	1.63	47800
S & W Smlr Secs	5	252.1	258.0xd	272.9	0.71	41393
S & W Thoroughbred	5	128.9	128.9xd	138.2	1.88	40263

Societe Generale Touche Remnant (1600)F
Mermaid Hse, 2 Puddle Dock, EC4V 3AT 071-248 1250
4 Hourly Pricing – 12 Noon Historic

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
American Gwth	5¼	74.74	74.74	79.93	0	41525
Eur Sp Sits Acc	5¼	40.06	40.06	42.57	0	41526
Eur Sp Sits Inc	5¼	37.83	37.83xd	40.21	0	41527
Far East Opps Inc	5¼	24.80	24.80	26.76	0	41660
Far East Opps Acc	5¼	25.48	25.48	27.49	0	41665

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Whittingdale Unit Tst Mgmt Ltd (0830)F
2 Honey Lane, London EC2V 8BT 071-600 0462

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Challenger	2½	86.49	86.49xd	88.51	0.00	41596
Short Dtd Gilt	1¼	105.9	105.9	107.3	1.93	41597
U.S. Govmt Bond	1¼	0.7002	0.7002xd	0.7094	0.00	41598
Gilt Income	4	51.06	51.06	53.13	8.68	47914
Gilt Growth	4	62.48	62.48xd	65.03	0.00	47069
City Reserve	0	55.30	55.30	55.31	6.92	47006

Woolwich Unit Trust Managers Ltd (1700)H
1 White Oak Square, Swanley BR8 7AG 0705 388046

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
Stockmarket FoF	5	60.81	61.09	64.98	2.54	47998

OTHER UK UNIT TRUSTS

Baillie Gifford & Co Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Int'l Expt Nov 30	657.4	680.8	1.02	40105

Baring Investment Mngmt Ltd
155 Bishopsgate, London EC2M 3XY
071 214 1050 (general enquiries) 071 214 1004 (dealing)
Charitable Funds

	Bid Price	Offer Price	Yield Gross	City-line
UK Growth & Income	50.60	52.39	4.8	–
Income Plus	48.35	49.34	7.5	–

James Capel Fund Managers Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Managed Exempt	121.004	127.979	4.21	43128

Cent. Bd. of Fin. of Church of England‡‡
2 Fore Street, London EC2Y 5AQ 071-588 1815

	Bid Price	Offer Price	Yield Gross	City-line
Inv Fund Nov 30	559.95	565.60	5.27	40251
Fxd Int Sec Nov 30	149.10	149.85	9.68	40252

Deposit Fund: See Money Market Trust Funds.

Charinco/Charishare‡‡ (1000)F
33 King William Street, EC4R 9AS 071-280 2800

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INSURANCES

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Continued on next page

FT MANAGED FUNDS SERVICE

● Current Unit Tru... ...tails call (071) 925 2128.

Prolific Life & Pensions Ltd
Stramongate, Kendal, Cumbria LA9 4UB 0539 733733
Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
Balanced Grth Mngd	618.8	658.3	-	43315
Adventurous Mngd	148.6	158.1	-	46402
Cautious Mngd	119.8	127.5	-	46403
Cash Fd	314.8	331.8	-	43316
Property Fund	218.0	232.0	-	43317
Equity Fund	708.7	794.0	-	43318
Fxd. Int. Fund	392.7	413.9	-	43319
International	316.4	336.7	-	43320
High Income	544.1	578.9	-	43321
Far East	415.1	441.7	-	43322
North American	425.7	452.9	-	43323
Special Sits	492.1	523.6	-	43324
Technology	423.0	450.1	-	43325
Extra Inc Fd	296.9	315.9	-	43326
Convertible & Gilt Fd	143.5	152.7	-	43327
American Income	169.1	179.9	-	43328
Gilt Fund 20	433.0	460.7	-	43329
European Fund	112.9	120.2	-	43330
Pref & Fixed Int	108.7	115.7	-	46332
UK Blue Chip	112.2	118.3	-	47044
Recovery Fund	103.3	104.1	-	47056
Equity Income Dist	100.5	107.0	5.01	47816
Managed Dist	95.7	101.9	5.34	47817
High Yield Dist	100.0	105.4	7.49	44422
Pension Funds				
Balncd Gth Mngd Pens Acc	718.2	756.0	-	43331
Adventurous Mngd Pens Acc	154.8	163.0	-	46404
Cautious Mngd Pens Acc	137.8	145.1	-	46405
Building Soc. Acc	362.4	381.5	-	43332
Property Pens. Acc	296.4	312.0	-	43333
Fix. Int. Pens. Acc	620.1	652.8	-	43334
Equity Pens. Acc	907.2	955.0	-	43335
International Pens Acc	291.5	306.9	-	43336
High Inc Pens Acc	609.8	641.9	-	43337
Tech Pens Acc	300.2	316.0	-	43338
N American Pens Acc	320.7	337.6	-	43339
Far Eastern Pens Acc	408.5	430.0	-	43340

Reliance Mutual
Reliance House, Tunbridge Wells, Kent 0892 510033

	Bid Price	Offer Price	Yield Gross	City-line
Deposit Acc Fd	167.2	176.0	-	43575
Equity Acc Fd	381.1	401.1	-	43576
Managed Acc Fd	336.3	354.0	-	43577
Prop Fd (1st Issue)	-	614.1	-	43578
Prop Acc Fd (2nd Iss)	120.3	126.6	-	43579
Unit Trust Mn. Fd	149.9	157.8	-	43580
RL Pension Funds				
Deposit Acc	242.4	256.2	-	43581
Equity Acc	279.0	293.7	-	43582
Fixed Int Acc	242.6	255.4	-	43583
Gilt Index Link Acc	181.2	190.8	-	43584
Managed Acc	370.8	390.3	-	43585

J Rothschild Assurance PLC
J Rothschild House, Dollar Street, Cirencester
Telephone: 0285 640302 Helpline: 041 307 6500

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
JRA/M&G Managed	108.0	113.7	-	46639
JRA/Scottish Amicable Mngd	104.2	109.7	-	46996
JRA/St James's Place Mngd	110.7	116.6	-	47133
Deposit	99.70	105.0	-	46281
Far East	107.8	113.5	-	46304
Gilts	104.4	109.9	-	46397
Greater European	106.5	112.2	-	46488
North American	124.2	130.8	-	46859
UK Equity	107.9	113.6	-	47134
Pension Funds				
JRA/M&G Managed cap	105.4	111.0	-	46800
JRA/M&G Managed acc	108.7	114.5	-	46714
JRA/Scottish Amicable Mngd cap	100.9	106.3	-	47129
JRA/Scottish Amicable Mngd acc	104.1	109.6	-	47128
JRA/St James's Pl Mngd cap	112.3	118.3	-	47131
JRA/St James's Pl Mngd Acc	115.9	122.0	-	47130
Deposit cap	99.70	105.0	-	46285

MANAGEMENT SERVICES

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

FT MANAGED FUNDS SERVICE

• Current Unit Trust prices are available from FT Cityline. For further details call (071) 925 2128.

	Bid Price	Offer Price	Yield Gross	City-line
IBT Global Funds Limited				
Intl Stlg Gwth.	£19.92	20.98	–	45289
Intl $US Gwth.	$17.91	18.87	–	45290
High Income Gilt	£25.88	26.83	–	45291
International Equity	£20.13	21.20	–	45292
International Bond	£22.07	22.88	–	45293
Managed Currency	£27.45	27.74	–	45294
Sterling Currency	£26.44	26.72	–	46030
US$ Currency	$37.75	38.14	–	46031
Irish £ Currency	I£15.18	15.34	–	46029
R & H Fund Managers Ltd				
LFM Sterling Fd.	£11.04	11.51	–	44455
B.F. Offshore Inc Fd Ltd.	£11.19	11.85	–	46580
Target International (Isle of Man) Ltd				
TMC Offshore Fd.	£9.05	9.79	–	46450
Nelson Miles W/W S/S	£9.41	9.71	–	46581

JERSEY (SIB RECOGNISED)

Unit Name	Init Charge	Canc. Price	Bid Price	Offer Price	Yield Gr's	City-line
AIB Fund Managers (CI) Ltd						
PO Box 468 St Helier Jersey						0534 36633
AIB Currency Funds Ltd						
Intl Managed Bond	5		£–20.9641	20.9695	–	47337
Managed Capital Bd	5		£–21.1297	21.1364	–	47754
AIB Dividend Currency Fund Limited						
Stlg Mangd Currency	5		£–	10.9703	–	44680
Sterling Currency Fd	5		£–	10.5486	–	44681
Ecu Currency	5		Ecu–	10.6725	–	46562
US Dollar Mngd Curr	5		$–	21.5465	–	47336
Barclays International Funds						
PO Box 152, St Helier, Jersey CI						0534 67888
Australian Eq (Inc)	5¼		£0.871	0.876	0.937 1.0	44738
Global Income (Inc)	5¼		£0.493	0.499xd	0.534 2.7	44730
Global Resources	5¼		£0.400	0.405xd	0.433 0.6	44742
Currency Funds						
Stlg Premium Income			£10.02	10.03xd	6.4	47926
Sterling			£–	23.51	6.5	44778

	Bid Price	Offer Price	Yield Gross	City-line
Lloyds Bank Trust Co (CI) Mngrs				
Lloydstrust World Inv Port.	£2.484	2.609	1.32	–
Dealing weekly on Thursday				
Management International (Jersey) Ltd				
Anchor Gilt Edge (z)	£9.88	9.92	9.47	45030
Minerals, Oils Res. Shrs. Fd. Inc.				
Mores Dec 10	$13.33	13.61	2.94	45476
Nat. Westminster Jersey Fd. Mgrs. Ltd				
Sterling Income Ltd	53.7	56.0	8.01	45546
UK Equity Fd (z)	216.2	230.0	2.78	45547
*Intl Bond Fd	95.0	98.0xd	7.07	45548
*Sterling Mngd Assts Fd.	543.9	573.0	5.00	47700
*Sub day every Thurs.				
NatWest TrustCor Currency Fund Ltd				
Dollar Class	$38.1315		–	45550
Sterling Class	£26.9272		–	45551
D-Mark Class	DM83.5380		–	45552
Dutch Guilder Class	Dfl82.9885		–	45553
Japanese Yen Class	Y7960.1691		–	45554
Ashburton Replica Portfolio Ltd				
Ashburton Replica Pfolio Ltd £	10.93	11.35	–	47755
Ashburton Replica Pfolio Ltd $	$10.20	10.58	–	47756
Northgate Unit Tst. Mngr. (Jersey) Ltd				
Pacific Fund Dec 10	$33.15	35.25	–	45567
Perpetual UT Mngrs (Jersey) Ltd				
Offshore Intl Gwth Fd.	$3.6783	3.9090	–	45591
Offshore Japanese Gwth Fd.	$0.9452	1.0045	–	47690
Offshore Am Gwth Fd.	$6.4180	6.8205	–	45592
Offshore Emerging Cos	$3.5994	3.8251	–	45593
Offshore European Fd.	$1.4661	1.5581	–	45594
Offshore Global Bond	$0.9600	1.0000	–	–
Offshore Far Estrn Fd	$2.1785	2.3151	–	45595
Offshore UK Growth Fd.	$1.8674	1.9845	–	45596
The Portugal Fund Limited				
Lloyds Bank Trust Company (Channel Islands) Ltd				
NAV Dec 4		$4.36	–	47465
Royal Bk of Scotland Fd Mngrs (Jersey) Ltd				
Ivory Growth Fund	£14.90	15.12	1.43	45838
LFM Defensive Strtgy	£11.39	11.98	–	41663
Royal Trust Intl Fd Mngt Ltd				

LUXEMBOURG (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGE AND MONEY MARKETS

Pressure on franc

TENSION within the European exchange rate mechanism is set to continue this week with several currencies coming under pressure in spite of the agreements reached at the Edinburgh summit, *writes Peter John.*

The three ERM currencies causing concern at the moment are the Irish punt, the Danish krone and the French franc.

Of the three, the punt is seen as most vulnerable and selling on Friday prompted Mr Bertie Ahern, the Irish finance minister, to stress his commitment to its present value. However, a number of London economists argue that there is no way that it can escape devaluation.

The krone, which was said to have been hit by corporate selling at the end of last week, is strongly expected to tread the devaluation path of its its Scandinavian colleagues.

There is more debate about the fate of the French franc. Belief is growing that if it is not devalued, floated or temporarily suspended from the ERM this week, it will have maintained its position by only the slimmest of margins and will probably go within the next few weeks.

Francophiles argue on the other hand that the economic fundamentals in France are sound and the currency benefits from a strong political and economic commitment to the status quo by the French government and arguably by the Bundesbank. They add that it is the key currency to stand against the D-Mark and if there is any realignment the whole nature of the mechanism comes under question.

In the money markets, short term rates are expected to be squeezed higher as the clearing banks find it preferable to borrow money overnight rather than take the Bank of England offers which can entail carrying money over into the New Year and upsetting the year end balance sheets.

UK clearing bank base lending rate
7 per cent
from November 13, 1992

£ IN NEW YORK

Dec.11	Close	Previous Close
£ Spot	1.5555-1.5565	1.5785 1.5795
1 month	0.50-0.48pm	0.49 0.48pm
3 months	1.35-1.32pm	1.35 1.32pm
12 months	3.90-3.80pm	4.00 3.90pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

CURRENCY MOVEMENTS

CHICAGO

OTHER CURRENCIES

Dec 11	£	$
Argentina	1.5405 - 1.5435	0.9900 - 0.9910
Australia	2.2495 - 2.2515	1.4480 - 1.4495
Brazil	16891.0 - 16902.0	10854.0 - 10856.0
Finland	7.9435 - 7.9545	5.1050 - 5.1070
Greece	320.050 - 326.450	206.800 - 211.020
Hong Kong	12.0475 - 12.0635	7.7425 - 7.7435
Iran	2270.00*	1450.00*
Korea(Sth)	1218.40 - 1238.05	786.00 - 792.20
Kuwait	0.46700 - 0.46800	0.29970 - 0.30000
Luxembourg	50.60 - 50.70	32.45 - 32.55
Malaysia	3.9550 - 3.9635	2.5415 - 2.5425

CURRENCY RATES

POUND SPOT - FORWARD AGAINST THE POUND

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

EXCHANGE CROSS RATES

EURO-CURRENCY INTEREST RATES

FT LONDON INTERBANK FIXING

MONEY RATES

LONDON MONEY RATES

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

RIGHTS OFFERS

BANK OF ENGLAND TREASURY BILL TENDER

WEEKLY CHANGE IN WORLD INTEREST RATES

BRUSSELS			MILAN		
One month	8⅞	-⅛	One month	13	-1
Three month	8¾	-⅛	Three month	13	-¼
AMSTERDAM			DUBLIN		
One month	8.875	+0.05	One month	22½	-11
Three month	8.72	-0.03	Three month	18¾	-1¾

BASE LENDING RATES

	%		%		%
Adam & Company	7	Cyprus Popular Bank	7	Mount Banking	7
Allied Trust Bank	7	Duncan Lawrie	7	NatWestminster	7
AIB Bank	7	Equatorial Bank plc	7	Northern Bank Ltd	7
●Henry Ansbacher	7	Exeter Bank Limited	8	Nykredit Mortgage Bnk	7.5
B & C Merchant Bank	13	Financial & Gen Bank	8	●Rea Brothers	7
Bank of Baroda	7	●Robert Fleming & Co	7	Roxburghe Bank Ltd	9
Banco Bilbao Vizcaya	7	Girobank	7	Royal Bk of Scotland	7
Bank of Cyprus	7	●Guinness Mahon	7	●Smith & Williamson Secs	7
Bank of Ireland	7	Habib Bank AG Zurich	7	Standard Chartered	7
Bank of India	7	●Hambros Bank	7	TSB	7
Bank of Scotland	7	Hampshire Trust Plc	13.5	Unibank plc	7
Barclays Bank	7	Heritable & Gen Inv Bk.	7	●United Bk of Kuwait	7
Brit Bk of Mid East	7	●Hill Samuel	7	Unity Trust Bank Plc	7
●Brown Shipley	7	C. Hoare & Co	7	Western Trust	7
CL Bank Nederland	7	Hongkong & Shanghai	7	Whiteaway Laidlaw	7
Citibank NA	7	Julian Hodge Bank	7	Yorkshire Bank	7
City Merchants Bank	7	●Leopold Joseph & Sons	7		
Clydesdale Bank	7	Lloyds Bank	7		
Co-operative Bank	7	Meghraj Bank Ltd	7		
Coutts & Co	7	McDonnell Douglas Bk.	7		
Credit Lyonnais	7	Midland Bank	7		

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

STOCK INDICES

	Dec 11	Dec 10	Dec 9	Dec 8	Dec 7	Dec 4	1992 High	1992 Low	Since Compilation High	Since Compilation Low
FT-SE 100	2716.2	2726.5	2750.7	2769.8	2754.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Mid 250	2662.0	2665.8	2672.5	2682.0	2674.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A 350	1318.0	1322.4	1332.4	1340.7	1334.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-A All-Share	1293.13	1297.40	1308.79	1314.54	1308.27	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Eurotrack 100	1044.03	1049.63	1054.06	1051.12	1056.02	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE Eurotrack 200	1117.72	1123.58	1133.46	1135.64	1137.52	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Ordinary	2062.8	2064.2	2074.8	2091.2	2084.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Government Secs.	93.84	93.64	93.74	93.57	93.45	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Fixed Interest	108.94	108.86	108.98	108.79	108.60	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT Gold Mines	65.7	66.4	67.6	69.4	70.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

BRITISH FUNDS - Cont.

OTHER FIXED INTEREST

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	Wk% ch'nge	Div gross	Dividends paid	Last xd	City line
Abbott Labs	b	28⅝xd	3.2	68c	FeMyAuNv	9.10	1503
Allegheny & W	♥	433p	2.1	30c	–	–	–
Amdahl		462p	3.4	10c	NvMrJeAu	31.1	–
Amer Cyanamid		37¼	1.0	$1.65	MrJeSeDe	4.3	–
Amer Express		15¾xd	7.9	$1.00	FeMyAuNv	28.9	1594
Amer T & T		31⅞xd	4.5	$1.32	FeMyAuNv	28.9	1597
Ameritech		44¼	2.8	$3.52	FeMyAuNv	28.3	–
BankAmerica		30⅞xd	2.9	$1.38	FeJeSeDe	18.11	1744
Bankers NY		42⅜xd	4.7	$2.88	ApJyOcJa	24.9	1745
Bell Atlantic		30⅝	1.2	$2.60	FeMyAuNv	4.7	–
BellSouth		32¼	3.4	$2.76	FeMyAuNv	5.4	–
Bethlehem Steel	♥	9½xd	4.1	–	MrJeSeDe	6.2	1821
Bowater		1590pxd	6.0	$1.20	OcJaApJy	9.3	1884
CPC	b	30⅞xd	2.1	$1.20	JaApJyOc	25.9	2263
Cadiz Land Inc	♥	115p	—	–	†	–	–
California Engy		1050p	2.4	–	–	–	–
Chase Manhattan		17⅞xd	3.3	$1.20	FeMyAuNv	26.10	2109
Chrysler		28⅞xd	5.8	60c	ApJyOcJa	10.12	2135
Citicorp		12⅞xd	4.3	–	–	23.10	2141
Colgate-Palm		37⅞xd	0.8	$1.24	FeMyAuNv	22.7	2184
Cont'l Bank		1252p	-2.0	80c	DeMrJeSe	31.5	–
Dana		29xd	3.6	$1.60	MrJeSeDe	25.11	2306
Data General		748p	-2.6	–		–	–
Decora Inds	♥	146p	—	–	†	–	–
Dun & Brad		37⅞	1.4	$2.28	MrJeSeDe	13.2	–
Eaton		49¼	4.5	$2.20	FeMyAuNv	2.2	2410
Echlin		14¾xd	9.5	70c	JaApJyOc	30.9	3048
FPL		23⅞xd	5.3	$2.44	MrJeSeDe	25.8	–
Fluor		27⅞xd	1.4	48c	JaApJyOc	24.9	2609
Ford Motor		27⅞xd	4.2	$1.60	MrJeSeDe	27.10	2615
Gen Elect		53⅞xd	4.3	$2.52	JaApJyOc	2.12	2675
General Host	♥	385p	-1.3	34c	†	13.22	–
Gillette		38⅞xd	3.2	72c	MrJeSeDe	28.10	2685
Hasbro		20⅞	-8.2	28c	FeApJyNv	1.6	–
Honeywell		44¼xd	3.2	$1.78	MrJeSeDe	23.11	2919
Houston Inds		29	3.1	$3.00	MrJeSeDe	10.11	–
IBM		40	-6.3	$4.84	MrJeSeDe	6.11	2988
Ingersoll-Rand		19¼xd	-1.9	70c	MrJeSeDe	13.11	2979
Lockheed		35¼	6.8	$2.12	MrJeSeDe	15.2	–
Lowe's	b	1437p	0.1	28c	JaApJyOc	11.7	–
Merrill Lynch		40¼xd	4.1	$1.20	FeMyAuNv	30.4	3351
Morgan (JP)		40⅝xd	6.8	$2.40	JaApJyOc	18.9	3418
Morris (Philip)		51⅞xd	1.0	$1.72	JaApJyOc	10.12	5161
NYNEX		54⅛	2.6	$4.64	FeMyAuNv	27.6	4740
Pall		17	2.3	36c	FeMyAuNv	24.1	–
Pennzoil		32⅞xd	6.7	$3.00	MrJeSeDe	24.11	3630
Quaker Oats		49⅛xd	2.3	$1.92	JyOcJaAp	22.9	3738
Rockwell		17⅞xd	9.1	92c	MrJeSeDe	10.11	3847
Rep NY		28⅞xd	1.8	$1.60	JaApJySe	10.12	3814
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CANADIANS

[illegible]

BANKS

[illegible]

BREWERS & DISTILLERS

[illegible]

BUILDING MATERIALS

[illegible]

BUILDING MATERIALS - Cont.

	Notes	Price	Wk% ch'nge	Div net	Div cov.	P/E	Dividends paid	Last xd	City line
Tarmac	□	108	11.7	5.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tilon	✻	145	8.2	3.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Travis Perkins	□	150	-4.5	8.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tudor		28	—	0.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Unigroup	□	11	—	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Waterhouse	✻	38	7.1	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Wickes	□	71½	-4.7	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Wolseley	□	916	2.4	12.55	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BUSINESS SERVICES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	P/E	Dividends paid	Last xd	City line
ADT S	□	493	-1.4	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Adam & Harvey		195	-1.5	11.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Air London	✻	53	-6.6	3.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
African Lakes		37	—	2.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asso'ted Sec	†□	118	-10.5	4.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BET	□	84xd	-1.2	6.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BMB Res		43	—	4.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BPP	†	238	-0.5	6.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Barbour Index		230	—	7.25	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Boosland	□	14	—	0.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bridgend	†□	12	—	1.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brit Data Mangt	□	170	—	4.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brooks Service	‡	58	—	4.05	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CRT	□	73	—	2.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Capita	†	412	0.7	5.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Caskel	†□	28	-12.5	0.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Chiltern Capital A$		41	—	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Carlisle Group		22	—	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Chubb Security	□	211	-2.3	2.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Comac	✻	21	—	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Corp Servs	□	5¼	—	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dart		49xd	-7.5	3.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Davis Service	□	194	-1.5	7.88	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EW Fact	✻	85	—	4.31	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gardiner	□	10	17.6	1.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gardner DC		26	-13.3	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hays	□	221	-5	4.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hogg Robinson	†□	193xd	4.0	6.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Holmes Protect $		66	—	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hutch Whamp HK$	♥‡	119	3.5	Q88c	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ISS B DKr		596	7.8	Q10%	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Inchcape	†□	488	0.2	12.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Johnson Cleaners		649	0.2	25.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Lep	□	3¼	-13.3	–	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CHEMICALS

[illegible]

CONGLOMERATES

[illegible]

CONTRACTING & CONSTRUCTION

[illegible]

CONTRACTING & CONSTRUCTION - Cont.

[illegible]

ELECTRICALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONICS

[illegible]

ENGINEERING-AEROSPACE

[illegible]

ENGINEERING-GENERAL

[illegible]

ENGINEERING-GENERAL - Cont.

[illegible]

FOOD MANUFACTURING

[illegible]

FOOD RETAILING

[illegible]

HEALTH & HOUSEHOLD

[illegible]

HOTELS & LEISURE

[illegible]

HOTELS & LEISURE - Cont.

[illegible]

INSURANCE BROKERS

[illegible]

INSURANCE COMPOSITE

[illegible]

INSURANCE LIFE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

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INVESTMENT TRUSTS - Cont.

INVESTMENT COMPANIES

MEDIA

MERCHANT BANKS

METALS & METAL FORMING

MISCELLANEOUS

MOTORS

OIL & GAS

OIL & GAS - Cont.

OTHER FINANCIAL

OTHER INDUSTRIALS

PACKAGING, PAPER & PRINTING

PACKAGING, PAPER & PRINTING - Cont.

PROPERTY

STORES

TELEPHONE NETWORKS

TEXTILES

TRANSPORT

WATER

SOUTH AFRICANS

PLANTATIONS

MINES

MINES - Cont.

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- ☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- Figures or report awaited
- Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially UK listed; dealings permitted under Rule 535(2)
- Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Annualised dividend.
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend.
h Assumed dividend after scrip issue.
m Interim higher than previous total.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend excludes a special payment.
t Indicated dividend: cover relates to previous dividend.
u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.
v Not subject to ACT.
z Dividend includes a special payment: Cover does not apply to special payment.
E Auction basis
F Dividend based on prospectus or other official estimates for 1994-95.
G Assumed dividend after pending scrip and/or rights issue.
H Dividend based on prospectus or other official estimates for 1993.
K Dividend based on prospectus or other official estimates for 1992-93
L Estimated annualised dividend, cover based on latest annual earnings.
M Dividend based on prospectus or other official estimates for 1993-94.
N Dividend based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1994.
Q Gross.
R Forecast annualised dividend, cover based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1200 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Deletions: Allegheny & Western (American), Intl. Corona (Canadians), NMW Computers (Business Servs), Tollgate (Conglomerates), Cabra Ests. (Property), Drayton Consld. and Templeton Emrg. Mkts. 1pc Cv. '01 (Inv Trusts), Western & Pacific (Mines).

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4 pm close December 11

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	11	AAR Corp	0.48	4.1	19	641	11⅞	11⅝	11⅝	
28½	18	A L Labs A	0.18	0.8	180	456	24⅛	23⅝	24	-⅛
68¾	52⅞	AMP Inc	1.52	2.7	20	1780	56⅝	55⅝	56	+⅛
80¼	64⅛	AMR			12	4096	61⅛	60⅞	61⅛	+⅛
2⅞	1⅜	ARX			13	88	2	1⅞	2	+⅛
53½	30½	ASA	2.00	6.1	21	270	32⅞	32½	32⅝	
34¼	26½	Abbott Lab	0.60	1.9	22	6381	31⅞	30⅞	31¼	+¼
13⅞	10⅞	Abitibi Pr	0.40	3.6	5	17	11⅛	11	11⅛	+⅛
11⅞	10½	ACM Gvt In x	0.94	8.7		199	10⅞	10¾	10¾	-⅛
10⅛	9⅛	ACM GvOpp x	0.73	7.7		63	9½	9⅜	9½	
9¼	8½	ACM Gvt Sp x	0.91	10.4		94	8⅞	8¾	8¾	
11⅛	9⅞	ACM Gvt Se	1.01	9.7		180	10⅛	10¼	10⅛	
10⅝	8⅝	ACM Man x	0.96	9.6		111	10	9⅞	10	
12⅞	8⅝	ACM Mangd x	0.93	10.6		371	8⅞	8¾	8¾	-⅛
11¼	4¼	Acme Cleve	0.40	5.0	15	26	8	7⅞	8	
6½	3¼	Acme Elect			115	88	6	5¾	5¾	-½
33¼	14⅞	Acuson			12	283	16⅞	16½	16⅝	-½
21	18½	Adams Expr	1.62	8.2	1	48	20	19¾	19⅞	
49⅛	29½	Ad Micro	3.00	6.6		26	44⅛	43¾	44⅛	+½
21½	7½	Ad Micro P	3.00	17.9		52637	17	16¾	16¾	-⅛
9⅛	4⅞	Advest Grp	0.16	2.7	12	142	6⅛	5⅞	6	
42¾	33	Aegon AOR	1.35	3.2	7	180	41⅝	41⅜	41⅝	+⅜
48¼	38	Aetna LF	2.76	5.8	14	1496	47⅞	47⅜	47¾	-⅜
12¾	8¾	Ahl A	0.24	2.1	15	180	11⅝	11⅜	11½	
34	24	Aflac	0.44	1.3	16	427	32⅞	32½	32⅝	-⅛
19⅞	13	Ahmanson	0.88	5.3	8	839	16⅞	16½	16⅝	-¼
22½	4	Aileen Inc			15	380	9½	9½	9¼	+⅜
49½	36½	Air Pr Chm	0.88	1.9	18	1297	46⅛	45⅝	46	
29¼	12½	Airbne Frt	0.30	1.7	97	285	17⅞	17⅜	17⅝	-⅛
21½	11¼	Airgas Inc			28	133	20	19	19	-1
12⅞	8⅛	Airlease	1.68	15.3	8	45	11	10⅞	11	+⅛
104	99	AlaPw8.16	8.16	8.0		2	101½	101½	101½	
105	100¼	Alab 8.28C	8.28	8.0		2	103½	102¼	103½	+1¼
11¼	10½	AlaPwDpPf	0.87	8.3		41	10⅝	d10½	10½	
23⅞	14¾	Alaska Air	0.20	1.2	5	69	[illegible]	[illegible]	[illegible]	[illegible]

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NYSE COMPOSITE PRICES

Continued from previous page

7½	6 Zenix Inc	0.82	12.4		40	6¾	6⅝	6⅝	
13¾	10 Zero Corp	0.40	3.0	20	198	13½	13¼	13⅜	
38	27¾ Zurn Ind	0.88	2.4	42	139	37⅞	37¼	37¼	+⅛
14⅛	12 Zweig Fund	1.12	8.6		64	13	12⅞	13	
11	9½ Zweig Totl x	0.96	9.5		433	10⅛	10	10⅛	+⅛

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

4 pm close December 11

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Pegasus G	0.10	31	1207	14⅞	14¼	14⅞	+⅝
Perini	0.80	17	35	17⅞	17½	17¾	+¼
Pet HMP x	1.14	11	33	16½	16¾	16½	
Phil LD x	0.25	14	729	34¾	33¾	34½	−1⅛

NASDAQ NATIONAL MARKET

4 pm close December 11

MONDAY INTERVIEW

Keynesian in from the cold

Cambridge economist Wynne Godley talks to **Peter Marsh**

Six months ago the notion of Mr Norman Lamont turning for policy ideas to Professor Wynne Godley – long-time critic of the Tory government and arch-dissident of UK economics – would have seemed fantastic.

So it is a measure of how far the government's approach has changed since sterling left the European exchange rate mechanism (ERM) in mid-September that Prof Godley was named last week as a member of a new seven-strong panel of economists set up by the Treasury to advise the chancellor.

The 66-year-old Cambridge economist – and one-time Treasury forecaster and professional oboe player – is probably Britain's best-known Keynesian economist. Ever since he entered academic life in 1970, he has made himself unpopular with UK free-market economists and politicians by calling for strong government intervention, especially to strengthen Britain's manufacturing base.

Prof Godley is often described by fellow economists as a doomsayer. He has warned continuously since the mid-1970s that unless Britain takes action to increase manufactured exports and reduce imports, its big trade deficit will produce structural imbalances that will lead to long recessions and high unemployment.

His intense blue eyes, shock of white hair and stooping gait give Prof Godley the appearance of a biblical prophet. He has certainly been in the wilderness.

During the mid-1980s, Prof Godley's ideas were distinctly out of favour owing to the widespread feeling that Britain had solved many of its economic problems as a result of the free-market approach of Mrs (now Lady) Thatcher. But in the past two years, as Britain has stumbled into its longest recession since the 1930s, the professor has come back into fashion.

Today, his prescriptions for state action to promote recovery fit in with the mood both of a recession-weary Britain, and of a government willing to try new approaches after the ERM debacle and the Treasury's stream of incorrect forecasts about an upturn.

Indeed, some of the measures announced by Mr Lamont in last month's Autumn Statement to promote growth – such as the effort to boost factory investment and the housing market by tax incentives and purchases of empty houses – could have been lifted straight from Prof Godley's list of ideas for an upturn.

As early as October 1989, Prof Godley warned that the UK was on track for a "major recession of which the incidence will be random, unjust and destructive". In March last year, he was the only mainstream economist bold enough to predict, correctly, that UK output would fall both in 1991 and 1992.

These forecasts were to some degree repeats of other gloomy predictions by Prof Godley made over the past 20 years. Back in 1982, he warned that unemployment would exceed 4m by the end of the decade – a prediction that does not appear too inaccurate given that today's jobless figure is almost 3m and climbing.

Seated on a couch in his study at King's College – his Steinway piano on one side of the room and his Elonex computer used for forecasting in the centre – Prof Godley explains his view of economics. He says governments must take responsibility for social goals such as high levels of employment, a fair system to distribute income and "ensuring that people who are ill or old or very poor are cared for".

He rejects free-market Thatcherite economics as both unjust and giving the wrong picture of how economies work. He says the most important part of modern economies is not millions of people working as free agents but institutions such as governments, companies, banks and trade unions which operate in a number of unique ways and cannot be fitted into "dangerous and pernicious" theories about free choice.

Given his view that markets are rarely free, he says governments have a duty to intervene where appropriate in a way that is "benevolent, unifying and deliberate". He says: "Until the mid-1970s it was common ground among decent people that this is how governments should operate. The Thatcherite contribution was to tear this notion to pieces."

As for trade, Prof Godley says: "A basic premise is that Britain needs a strong manufacturing base to generate the income to pay for imports. It is insanity to say the balance of payments doesn't matter."

He is among many non-government economists worried that even in a recession the UK's deficit on visible goods is heading for £14bn this year, and could climb to £19.5bn next year on the Treasury's latest forecast. The need to fund the deficit mainly by borrowing from overseas will, says Prof Godley, be one of the factors keeping the UK economy weak. He reckons output next year will show only the mildest improvement, with growth of 0.5 per cent and with unemployment moving up to 3.3m.

During the heady days of the mid-1980s, Prof Godley stuck to his guns, warning that the credit explosion would fizzle out and end in a downturn as businesses and consumers cut their spending once they had realised they had overborrowed. "There was a yuppie culture in Cambridge at the time and my view led to some difficult moments when talking to students," he says.

His views have also prompted disagreements with fellow economists. Sir Douglas Hague, a former economics adviser to Mrs Thatcher, says Prof Godley has been "too pessimistic, and wrong". Lord Skidelsky, an economics professor at Warwick University who is also Keynes's biographer, says: "Prof Godley is an interesting maverick, not a high-powered thinker. Keynes was always concerned with what is possible: Godley is not very practical and this has reduced his influence."

Somewhat warmer is Professor Patrick Minford of Liverpool University – one of Britain's leading free-market economists who, like Prof Godley, has also strongly criticised the government and is another member of the Treasury's new advisory panel. Although Prof Minford thinks the Cambridge don "sometimes goes over the top" in rejecting market mechanisms, he admits he has "a lot of respect for him".

Whatever the views of colleagues, Prof Godley now has the ear of the Treasury. So what will he tell the Treasury's new advisory committee at its first meeting early next year? Prof Godley wants interest rates cut immediately from 7 per cent to 5 per cent, along with a further devaluation of the pound of between 10 per cent and 20 per cent to add to the 11 per cent depreciation which has taken place since the ERM exit. If inflation started to get out of control, he would damp demand by increasing taxes.

He says import controls, which he espoused during the 1970s, are now "unthinkable". But he would like to see the Department of Trade and Industry taking "strong, ingenious and partisan" measures to boost industrial output, through modest ideas such as tax incentives for investment or setting technical standards.

Aren't such thoughts, even in a fairly diluted form, a throwback to the bad old days of Labour-style state involvement in industry? Prof Godley says he does not want the government to tell industry what to do, but to work with it. He thinks Labour's economics policies "pretty feeble". He has never joined Labour, nor any other political group, and describes himself as a "one nation Tory".

While some have suggested that the Treasury's new advisory panel is no more than a device to neutralise criticism of the Treasury, Prof Godley is optimistic. "With good will and forbearance, it could be a very creative piece of machinery," he says.

As for his general views about Britain's future, Prof Godley says he wants to lay to rest that he is an incurable pessimist. "Britain is full of so many talented people. Given the right combination of carrots and sticks, things can be supremely better than they are."

Lydia van der Meer

'Britain needs a strong manufacturing base'

PERSONAL FILE

- **1926** Born in London. Educated at Rugby School and New College, Oxford.
- **1947** Studied music at Paris Conservatoire.
- **1951** Oboe player, St James's Theatre, London.
- **1952** Principal oboeist for the BBC Welsh orchestra.
- **1954** Joined Metal Box as economist.
- **1956** Moved to Treasury, rising to chief economic forecaster.
- **1970-87** Director, Department of Applied Economics, Cambridge.
- **1980-** Professor of applied economics at Cambridge.

The sternest test is healthcare

MICHAEL PROWSE on AMERICA

Social reform in the US occurs in fits and starts. In the 1930s Franklin Roosevelt introduced unemployment insurance and federal pensions. In the 1960s, Lyndon Johnson attacked racial discrimination and poverty. In the 1990s, Mr Bill Clinton faces a task of comparable dimensions: reform of healthcare to ensure universal coverage and better control of costs. He took his first step last week in nominating Ms Donna Shalala, an energetic university chancellor, as health secretary.

Ms Shalala inherits a fluid situation. Following Mr Clinton's election victory, two of the parties most resistant to change – the private insurance industry and the American Medical Association – have made conciliatory noises. They have done so in part because a seductively attractive reform strategy, known as "managed competition", is rapidly gaining popularity. The socially liberal New York Times has been running hectoring editorials in favour of the reform for months. Yet conservative groups are also supportive.

The need for reform can hardly be overstated. After decades of uncontrolled expansion, healthcare now accounts for 14 per cent of gross domestic product; it is the biggest "industry" in the US, more significant for the economy than all exports combined. Relentless healthcare inflation is the main cause of structural budget deficits. Yet despite all this spending 35m or so people remain uninsured. Millions more are reluctant to change jobs for fear of losing health coverage, or getting less generous benefits; a serious illness can still jeopardise future insurance prospects while anxiety about the exploding cost of nursing home care afflicts even the affluent.

Could managed competition provide a solution? It depends on what you make this slippery phrase to mean, whether you lay more stress on managing, or more on competition. The heart of the idea is sound enough. Unregulated insurance markets fail for a variety of reasons: private insurers discriminate against the sick (who are costly to insure) and they often lack the market power (or incentive) to restrain the expenditure of providers – the doctors and hospitals.

Managed competition says the answer is to create "sponsors" – regional purchasing groups through which individuals would have to buy health plans. The sponsors, the argument runs, would have the clout to demand high quality and low prices from competing providers in the private sector. Every plan would have to offer a minimum set of basic benefits; discrimination against the sick would be made illegal. As an added pressure on costs, the deductibility of employer-paid premiums would be limited to the cost of the cheapest health plan available in a given area.

At first glance all this sounds marvellous. The goals of universal coverage and cost control are achieved without imposing bureaucratic controls or sacrificing the flexibility and dynamism of market competition. But then the questions start pouring in. Even with limits on tax deductibility, is it likely that the sponsors would effectively restrain healthcare costs, which are driven by factors such as new technology? In California, which already has many big purchasing groups, costs are still rising fast.

And how do you ensure everybody gets insurance through one of these sponsors? If employers are not required to enroll employees, many workers will continue to plead poverty and fail to enroll themselves. The unemployed in any case would have to be covered by some kind of catch-all public scheme. Scratch the surface of managed competition and things get very messy.

There is a variant of managed competition that might work, put forward by Mr John Garamendi, California's insurance commissioner. Under his scheme, private insurance premiums would be replaced by new payroll taxes on employers and employees. This revenue would be handed over to competing purchasing units, on the basis of the number of individuals they attract. As in other schemes, the sponsors would then purchase care from competing private sector providers. But there would be a real budget constraint because the sponsors could only spend the tax revenue they received.

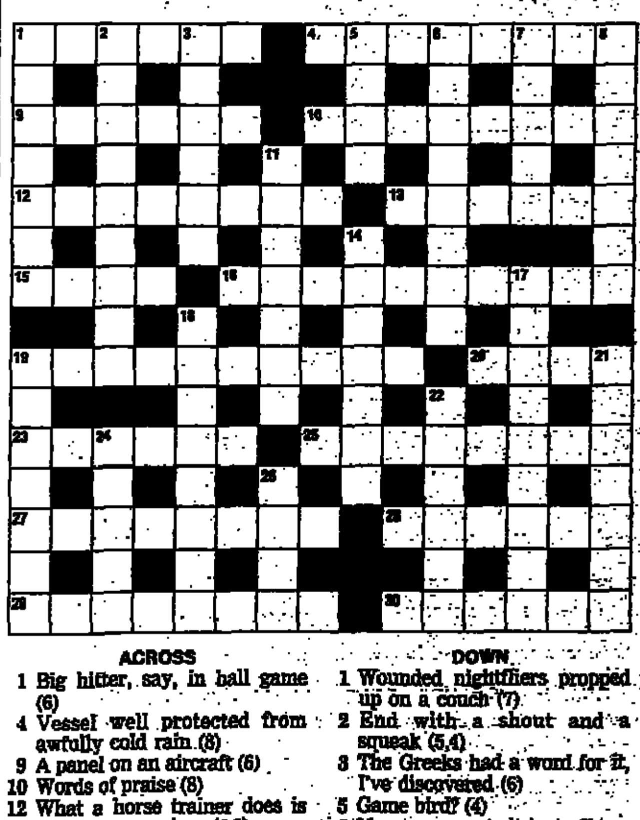
By imposing rigorous constraints on the US private sector, Mr Garamendi's version of managed competition would create a health system not dissimilar to Britain's National Health Service, where the aim of reforms was to introduce competition into a public sector system. In both cases the theory is that tax-financed purchasing groups buy care on behalf of patients from independent, competing groups of providers. In both cases there is a safety valve in that, having paid health taxes, people are free to buy extra private care if they so choose.

In the US, the biggest obstacles are the institutional upheaval involved and the fact that replacing private insurance premiums by payroll taxes would sharply increase the tax burden – without, of course, raising the financial burden imposed on the economy by healthcare. International experience, however, suggests weaker forms of managed competition would not achieve the twin goals of cost control and universal coverage. A Garamendi-style reform would be a huge step for Americans. But this may just be one of those rare moments in US history when huge steps are possible.

[illegible]

CROSSWORD

No.8,028 Set by DANTE



ACROSS

1 Big hitter, say, in ball game (6)
4 Vessel well protected from awfully cold rain (8)
9 A panel on an aircraft (6)
10 Words of praise (8)
12 What a horse trainer does is to check any vices (6,2)
13 Word in current usage (6)
15 Board of trade (4)
16 Blues associated with the early 1930s (10)
19 One seen in a hanging basket? (10)
20 Company way out with tax (4)
23 Intimidates with desert manoeuvres (6)
25 Carefully examines any seals broken (8)
27 Go by car, perhaps (8)
28 Foreign capital obtainable at the tobacconists (6)
29 One ordered to be silent (8)
30 A fine state to be in (6)

DOWN

1 Wounded nightfliers propped up on a couch (7)
2 End with a shout and a squeak (5,4)
3 The Greeks had a word for it, I've discovered (6)
5 Game bird? (4)
6 Mean error puts it just off target (4,4)
7 Weapon point caught in material (5)
8 In transformation scene, how does Cinders make out? (7)
11 Pigs can't fly, but pigs one modifies might! (7)
14 Here to put on a show (7)
17 An insect's metamorphosis is going on continuously (9)
18 Canvass for a slice of bread (8)
19 May be allowed to share a secret, being upright (7)
21 Examine a note with a will (7)
22 Oral entreaties find favour (6)
24 Letter that is circulated around the orient (5)
26 Winter sportsmen decline to use them (4)

The solution to last Saturday's prize puzzle will be published with names of winners on Thursday December 24.

Nation unto nation

IAN DAVIDSON on EUROPE

The negotiations between Denmark and the other 11 member states, over a document which could enable the Danes to hold a second referendum on the Maastricht treaty, have caused a lot of bother and barney. Scandalised sticklers for juridical integrity have protested that it must be quite improper to offer a deal which lets the Danes opt out of the main provisions of the treaty, even before it has begun. World-weary cynics retort that the treaty is an infinitely elastic document which can be stretched in any direction; the only important thing is to ratify it, because we can always adjust the fine print later.

There is one issue, however, over which there surely could be no serious argument, and that is the question of European citizenship. One of the reasons a narrow majority of the Danish electorate voted against Maastricht last June, we are told, was that they were afraid the new Treaty of European Union would take away their Danish citizenship. This may seem strange, even incredible. But it can be no great sacrifice of European Community principle for the other member states to reassure the Danish people that their fears are groundless.

It is hardly surprising, therefore, that the text batted back and forth between the 12 included an article which solemnly declared that the European "citizenship" referred to in the new treaty did not replace national citizenship. It would confer additional rights and protections, but nationality as such would continue to be the sole prerogative of the national member states. Such a declaration may seem unnecessary, it may even seem childish, but at least it could do no harm to tell the truth.

At first blush, the moral of this minor aspect of the Danish dilemma is that those Danish politicians who were campaigning for ratification did a peculiarly incompetent job of explaining the treaty to the people. It makes one wonder if they know what they are talking about now.

At another level, however, Danish anxieties undoubtedly touch indirectly on a nexus of politically sensitive questions which are likely to become of intense relevance in the future. The Maastricht treaty could not affect the essentially national character of the attribution of citizenship, because it would not displace the leading role of the nation state as the primary paradigm of political legitimacy. The locus of political authority must be the locus of nationality.

On the other hand, there is a raft of associated issues that are almost as sensitive, which will force their way on to the European agenda not mainly through the Maastricht treaty, but through the combined effect of outside pressures and the opening-up of the single European market. Following the collapse of the Berlin Wall and the war in ex-Yugoslavia, the Community has already started to recognise that the refugee problem is so large and so serious that it needs the beginnings of a common European response. The Maastricht treaty would take the Community into the field of normal travel regulation, in the realm of visa policy.

Given the potential migratory pressures which exist to the east of the Community and to the south, the member states may be forced sooner or later to consider whether they must move in the direction of a common immigration policy. In principle, this might not be an issue of serious contention, since they all try to bolt the door tight shut; but in practice they all suffer more or less from illegal immigration, so there could be matter for co-operation in policing and detection.

At that point, they may then be only a small step away from talking about the implications for immigration of their different asylum and nationality policies.

In fact, in the context of the Single European Act, with completely free movement for Community "citizens" and no border controls (on the Continent), it is difficult to see how they can avoid talking about their different nationality policies. This issue is particularly acute in the case of Germany, which has acquired a large number of new citizens as a result of unification, and which regularly acquires large numbers of other ethnic Germans previously settled in eastern Europe or the ex-Soviet Union. These changes in the German population are causing serious social stress inside the country; the unknown question is whether free movement in the Community could lead to stress in other countries.

Insofar as there is a single problem, it is that Germany has an exclusively ethnic basis for the attribution of nationality: a German is someone with German parents. This policy, crystallised in the nationality law of 1913, originated in the 18th and 19th centuries, when frontiers were shifting between the German lands and the Slav lands of Poland, Lithuania and the Ukraine; Germans felt their nation existed before their state had been created.

France has a different history and therefore a different nationality policy. Its essential frontiers were fixed relatively early by a strong central state; indeed, while the German nation created the German state, the French state created the French nation. Partly for this reason, and partly because of a historically low birth rate, France has long had a law of nationality conferred by birth in France as well as by birth to French parents. As a result, about one-fifth of its population has a parent or grandparent who was an immigrant.

These national characteristics have historic roots which go far too deep to be swept away in the name of European uniformity. Neither the Germans nor the French can deny the facts of their differences; but nor can they deny that these differences may have policy consequences for their neighbours in the Community.